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FORCES

COMPTROLLER



VOL. VI - No. 1

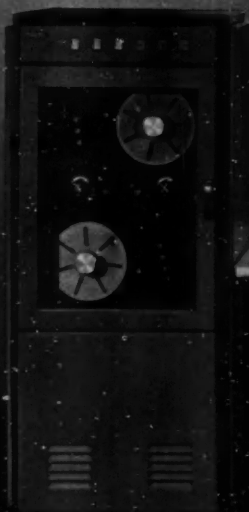
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REPORT ON THE FOURTH NATIONAL CONVENTION OF THE AMERICAN SOCIETY OF MILITARY COMPTROLLERS - PART II

Kenneth E. Dunlap, Convention Reporting Committee

The following speeches delivered, to this convention, are published below:

THE ARMED FORCES SUPPLY SUPPORT CENTER BRIGADIER GENERAL IRVIN L. ALLEN, USA

Today I would like to discuss with you the Armed Forces Supply Support Center, why we were established, its purpose and functions, a brief explanation of its organization, and a summary of our business and how we do it.

In October 1957, Mr. Wilson, then Secretary of Defense, instructed the Deputy Secretary of Defense to undertake a comprehensive study of the Department of Defense supply organization and procedures. This was known as the Logistics System Study Project. The study was to include steps taken to date and further steps necessary to improve our supply and logistics systems.

A quick listing of the major steps over the past decade to improve our Defense Materiel Management would include programs as follows:

1. Single Department Procurement

One of the military departments, through its normal procurement system, purchases all of a given class of commodities for itself and for the other services.

2. Plant Cognizance Program

Certain industry production plants (aircraft, engines, etc.) are placed under the cognizance of a Single Department for processing procurements, contract administration, and inspection.

3. Federal Cataloging Program

Using a common language for supply item classification and identification.

4. Defense Standardization Program

To bring about both items and engineering standardization in the Department of Defense.

5. Public Law 216 of 1949

Which furthered financial inventory, stock fund, and industrial fund practices within and among the Services, and established the Comptroller's position firmly in DOD.

6. Public Law 152 of 1949

Which established GSA and provides the base for certain coordinated materiel functions between the civil and military departments of our Government.

7. Single Managers

Established in 1956 for selected commodity areas such as food, clothing, medical, and petroleum.

8. Excess Screening Program

Wherein military property excesses are screened within DOD and also with the civil agencies to secure maximum utilization of property within the Government prior to disposal.

9. Interservice Supply Support Program

Wherein services and supplies of each military department are exchanged or made available to other

military departments with or without reimbursement based on established criteria and conditions.

10. Defense Communications Agency - 1960

Although this is a joint agency under JCS to control communications services primarily, it has an additional responsibility to coordinate research projects for communication equipment.

During this 12-year period, there was a succession of organizational changes such as the Munitions Board, the Defense Supply Management Agency, and 1953 Reorganization of the Department of Defense, plus the changes in the Reorganization of the Defense Department in 1958, the increased stature of the Joint Chiefs of Staff, and the McCormack Amendment to the Defense Reorganization Act.

In February 1958, the Assistant Secretary of Defense (Supply and Logistics) submitted his summary of the survey team reports to the Deputy Secretary of Defense. Among other things, it was recommended that an Armed Forces Supply Agency be established with the following functions: Cataloging, Standardization and Simplification, Redistribution and Disposal, and Operational Planning or Analysis.

The Armed Forces Supply Support Center, which was the name finally selected for the Agency, was authorized by a Department of Defense Directive dated June 23, 1958, and was activated on July 14, 1958.

The Functions of AFSSC

The functions of the Armed Forces Supply Support Center are:

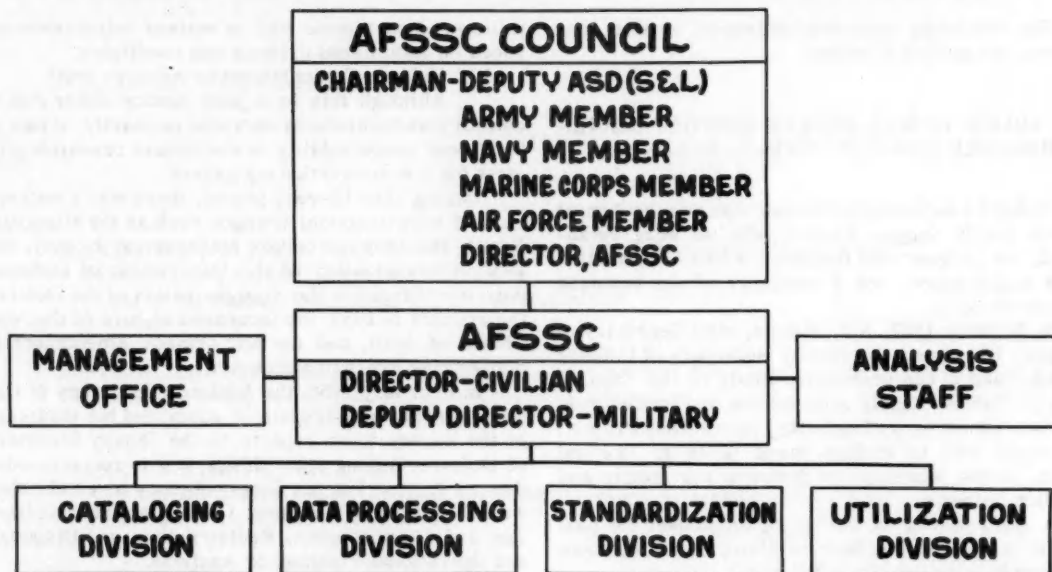
1. Administers the Federal Cataloging Program.
2. Administers the Defense Standardization Program.
3. Administers the Defense Materiel Utilization Program.
4. Conducts analyses of the operations of the supply systems of the military services concerned with commercial and noncommercial common items of materiel, to obtain optimum integration in the interest of increased military effectiveness and economy.

Chart 1 (See page 2)

This chart shows the organization of the Center itself. The Council is composed of a Chairman, who is the Deputy Assistant Secretary of Defense (Supply and Logistics), Mr. Philip LeBoutillier, Jr.; one Army Member, Major General Floyd A. Hansen; one Navy Member, Rear Admiral J. W. Boundy; one Marine Corps Member, Major General C. R. Allen; and one Air Force Member, Major General W. O. Senter; and the Director of the Center, Mr. Herman C. Hagen, a former official of the J. C. Penney Company. There are alternate members for each of the

CHART 1

ARMED FORCES SUPPLY SUPPORT CENTER (AFSSC)



principal members of the Council. As you may know, I am the Deputy Director of the Center and an Alternate Member of the Council.

The Center itself has four operating divisions—Cataloging, Standardization, Materiel Utilization, and a Data Processing Division—with a Management Staff, and an Analysis Staff for making studies. Its strength is 411 civilians and 16 officers from the Army, Navy, Air Force, and Marine Corps.

Federal Supply Catalog System

One of the most important programs of the Center is the Federal Supply Cataloging Program and the maintenance of the Federal Catalog System within the Department of Defense.

We've had cataloging activities within the departments performed by separate activities for many years. At the end of World War II, we had 17 military cataloging activities, speaking in over 17 supply languages.

In 1952, Congress directed the establishment of the Federal Cataloging Program by Public Law 436.

The Law

Specifically, the Law directs:

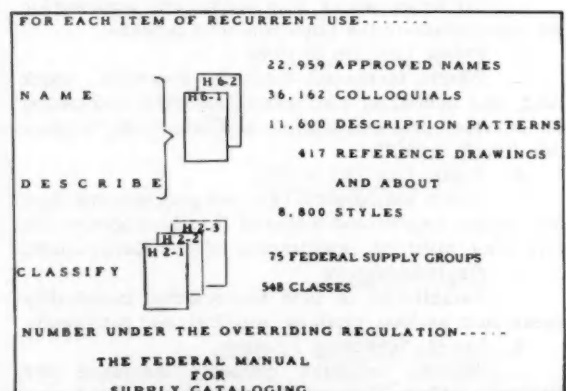
1. That the Secretary of Defense develop a catalog system.
2. That he will name, describe, classify, and number recurrent use items.
3. Additional data needed for supply operations will be included.
4. That he will maintain liaison with industry to be sure that they understand what we are doing.

5. The work will be delegated to the military departments to create and maintain the system.

6. He will establish time schedules for establishing the catalog system.

7. That he would assure the use of only one identification for one item in all supply functions; and last, that he would distribute the catalog data to the people who would have a need for its use. The Law prescribes that the catalog number will be used in all supply functions from procurement to eventual disposal.

CHART 2



In order to catalog each item of recurrent use, the Cataloging Division of the Center, in cooperation with the military departments, developed almost 23,000 approved names, referenced to over 36,000 colloquial names. To describe these items, over

11,000 description patterns, over 400 referenced drawings, containing over 8,800 styles, were developed. Items are classified in 75 Federal Supply Groups which, in turn, are subdivided into 548 Classes.

There are more than 3,600,000 supply items identified in the Federal Catalog System, each of which has an FSN by which it is managed. About 60,000 new items are being received each month with about 40,000 items dropping out, or a net gain of about 20,000 items. There are 44 cataloging activities and 56 inventory managers in DOD preparing and using data from the files.

Additional Data Used in Supply Operations As of 30 June 1960

1. The Center catalog file contains and furnishes to each ICP additional data needed for supply management.

2. Manufacturers' Codes—We have approximately 40,000 manufacturers' plants assigned codes, including many located in NATO countries.

3. Our files contain over 6,500,000 manufacturers' part numbers to identify items. This is used in provisioning parts in procurement contracts.

4. Supply Status Codes—is item centrally managed, stored, etc.?

5. Standardization Status Codes—Is it standard, limited standard, etc.?

6. Identification as to specification against which it was bought.

7. Responsibility Codes—Who manages, uses it, etc.?

8. Freight Classification Codes—the Transportation Single Manager has coded 1,400,000 items with the freight rates, and the Center puts this in the catalog file and furnishes this data to each ICP for use in shipping, etc.

A basic requirement in most of our operations is speed—to avoid extending and to compress, if possible, the normal supply cycles. We have an automatic data processing system and a data transmission system in operation.

Our data processing system—an IBM 705 II—is probably the most effectively used for business-type operations in government today. It is operated productively around the clock 7 days a week. Allowing for routine machine maintenance, we are doing better than 95 percent utilization—practically unheard of. Facilities to do this work on a single shift would cost about \$700,000 more than the \$1,000,000 we are not paying annually for EDP and Associated Equipment.

Our data transmission system is another first. The first transmission system—other than the normal Bell telephones—connecting all four services. The Center can be connected with 35 locations serving 42 cataloging activities over regular long-distance lines to exchange messages at 3,600 characters per minute. No leased lines are required—we pay for only the time we use a line—as you do in a long-distance call. The Center itself sends and receives about 70,000,000 characters per month. This eliminates 8 to 10 days in mailing, handling, and processing time.

The services use this equipment between themselves on a limited basis, but are already demanding more capacity for important new uses. This need can be met by new equipments available soon which will handle up to 9,000 characters per minute.

Standardization Program

Another important program in the Center is that of the Standardization Program. The development of an organization for standards started in 1942 with a Joint Army-Navy Committee on Specifications. Then Munitions Board, DSMA, OSD, and now a responsibility of the Armed Forces Supply Support Center.

Public Law 1028, 84th Congress, Chapter 145

The same Law which established the Federal Cataloging Program also established the present Standardization Program. Section 2451(c) of the present Law states:

"In standardizing supplies, the Secretary shall, to the highest degree practicable-----

1. Standardize items used throughout the Department of Defense by:

Developing and using single specifications.

Eliminating overlapping and duplicate specifications.

Reducing the number of sizes and kinds of items that are generally similar.

2. Standardize the methods of packing, packaging, and preserving standardized items."

Standardization

Standardization should reduce variety, provide maximum interchangeability, establish firm levels of quality, broaden the production base, simplify demands on industry by eliminating specific requirements, and establish uniform technical practices. For example, the uniform drawing practices project developed by over two years' work and published in March of 1959 established uniform methods of preparing engineering drawings, symbols, abbreviations, and codes, and eliminated a number of different standards and specifications in this area.

Chart 3 (See page 4)

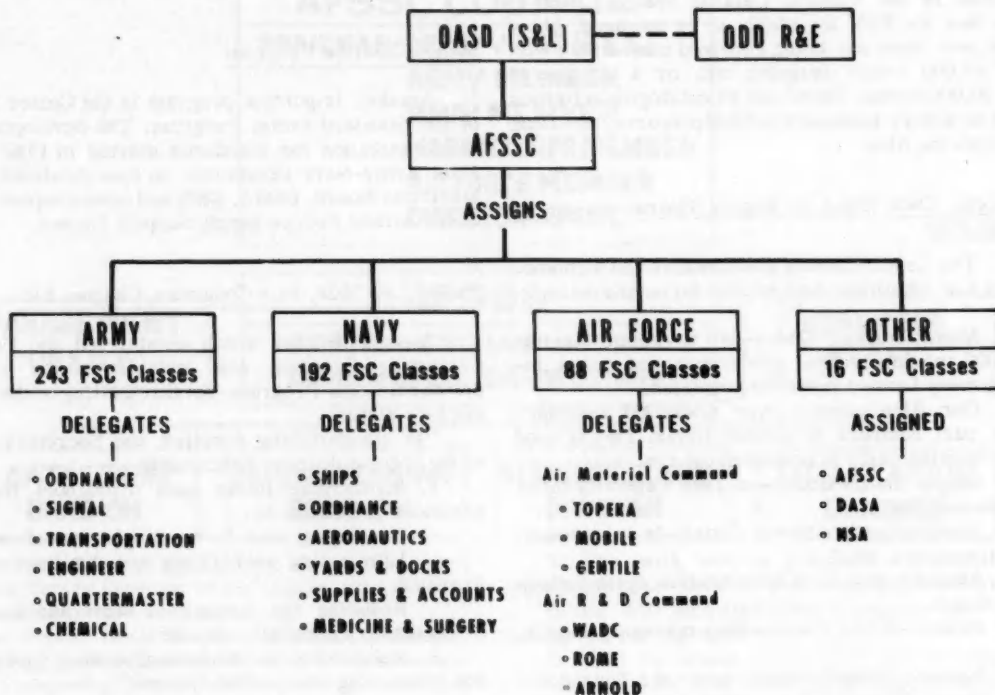
This chart shows the organization within DOD for doing the work.

Today the services are using a total of about 28,000 Federal and Military Standards and Specifications, coordinated and limited coordinated. A single index to all of these (the first one ever developed) is being published by the Center next month.

Our central catalog files show only about 300,000, or less than 10 percent, of our cataloged items referenced to these documents. We know cataloging agencies have not recorded this data for all items. We also know standards and specifications do not

CHART 3

ORGANIZATION FOR STANDARDIZATION



cover many of our items. New and fast changing technology is partly responsible, lack of resources or the application of resources within the military departments have prevented the remainder being covered.

Standardization of engineering practices and procedures is a big field. This is being worked on with various degrees of emphasis.

The development of a single or reduced number of DOD specifications for preparing and printing Technical Manuals is under way. The initial survey has disclosed 230 different basic documents, plus 137 detailed documents within DOD spelling out manual requirements.

The project with the largest potential for progress is the development of an engineering documentation system for collecting, collating, reproducing, and distributing engineering data for design engineers to eliminate the need for developing new drawings of items where one already exists if it were known. It is estimated DOD has 50,000,000 drawings and buys about 6,000,000 new ones each year at a cost of about one and a half billion annually. Work in this area of technical documentation is under way.

Material Utilization System

The objectives in the Materiel Utilization Program are the maximum interservicing of wholesale and

retail stocks and the maximum use of excess property before disposal.

Historical Development

A program for excess screening started early in 1943 with a Joint War Department-Navy Department Agreement. In 1947, a Surplus Materiel Procurement Section was established in the Navy. In 1954, the name was changed to the Materiel Redistribution Division and a charter was issued. In 1957, it became the Interservice Materiel Utilization Agency, which operated for a time under the Bureau of Supplies and Accounts, and then under the Interservice Supply Support Committee.

The Interservice Program started in 1955 as a result of a joint effort of the supply managers of each of the four military services. The Interservice Supply Support Committee was established and three different organizations were established to carry out this program: The Commodity Coordination Groups (CCG's), which are composed of representatives of the Inventory Control Points of the services; Area Coordination Groups (ACG's), which are a geographical split corresponding to the U. S. Army Areas in the United States; and the Overseas Unified Commands.

CHART 4



The excess screening program provides different treatment for Lo-Valu and Hi-Valu items with \$3,000 being the dividing line between the two. Excess line items less than \$3,000 and reportable are reported to the Regional Office of GSA. There is a concurrent military screening period of sixty days plus fifteen days donation period. No reimbursement is required, either by civilian or military users.

For long items of \$3,000 and up, excess reports are made to the Center, sent to major designated activities, and the total screening time is reduced from a total of 135 days to 90 days, of which the first 30 days are used for military screening. The reimbursement policy is unchanged.

There are problems in the interservicing area between military services. I would list them in this order:

- The research required to determine if the technical requirements of one service can be met by the assets of another service.
- Incompatibility of ADPS systems used to interchange and furnish data for interservicing.
- Financial and funding barriers resulting from reimbursement and stock fund policies, and allocation of funds from reimbursable sales.
- Motivation or lack of it.

ANALYSIS FUNCTION

The Analysis Staff is headed by Colonel Joseph R. De Luca an Air Force officer, and composed of 14 other persons—7 military and 7 civilian—a Navy Captain and Commander, 2 Army Lt. Colonels, 2 Air Force Lt. Colonels, and a Marine Corps Colonel, with the seven civilians selected from the three departments.

The keystones of the Analysis Staff's studies are quality and objectivity. Their recommendations must be founded on thorough research, complete knowledge of the subject, and full realization of the impact of their recommendations on related supply and logistic operations.

The Analysis Staff has completed a number of studies in the past two years. One study on Photographic Equipment and Supplies led to the withdrawal of the Single Manager assignment to the Air Force for that commodity. The study of the Management of Selected General Supplies led to the establishment of the two Single Managers—General Supplies to the Army, and Industrial Supplies to the Navy.

ICP-Item Relationships

In the study on General Supplies there were some points brought out that are important.

The military services manage an immense range of items:

Army, 840,000;
Navy, 1,300,000;
Air Force, 1,700,000; and
Marine Corps, about 230,000.

The fundamental problem the services have in common is how to divide this item range into manageable segments. The two basic management alignments are by commodity or by program/mission/weapon system.

POINT

Although ICP's are either commodity type or program type, or a combination of both, there are no two ICP's within the military services which manage the same range of items. Consequently, you should not attempt to achieve consolidation of ICP's across service lines. They are all different.

Item/Class Management

It is wrong to think of consolidated supply management in terms of complete FSC Classes.

The FSC Class is a logical, systematic grouping of items classified on the basis of item characteristics. It is designed to facilitate supply management, but not to dictate it. Military management of each or all items within a class is another consideration, requiring an item-by-item review. For example, a Hand Tool may be so common as to be found in every household, or so complex and technical that it is used only by specially trained personnel in one military program, but both items will be in the same FSC.

POINT

Do not try to grab a complete FSC Class for consolidated management without item examination.

CHART 5

BLEUPRINT ACTION

ITEM MANAGEMENT CODING

1. MILITARY SERVICE SUPPLY MANAGEMENT
 - ENGINEERING ESSENTIAL
 - OPERATIONAL ESSENTIAL
2. CONSOLIDATED DEFENSE SUPPLY MANAGEMENT
 - MILITARY TYPE ITEMS
 - MOBILIZATION REQUIREMENTS
 - DEMAND VOLUME
3. DEFENSE DECONTROLLED SUPPLY MANAGEMENT
 - GENERAL SERVICES ADMINISTRATION
 - COMMERCIAL

Since it is not feasible to consolidate ICP's or to assign total FSC Classes to a Single Manager because of program-type items, there must be a way to determine the items suitable for consolidated management and those which are not.

On this chart a blueprint action was proposed—a system of item management coding to do this.

The advantages of this coding structure are that it reserves for management by the military services those items which must remain under their operational control, and earmarks for consolidated management those items which need not be controlled by the services, but which can be more effectively and economically supplied by a Single Manager. It also provides a uniform and businesslike approach to determine those items which need not be managed by DOD and which may be delegated to GSA for supply support.

This proposal has been approved by the military departments and DOD, and is being used to determine the items to be managed by the two Single Managers for General and Industrial Supplies. It also provided one means of speeding up a joint study and analysis by the Center on Construction and Automotive Supplies which resulted in approval of two new Single Managers in these areas.

CHART 6 (See page 7)

This chart shows the status of Single Manager assignments.

Four are operational (Subsistence—Clothing—Medical—POL), with an inventory of \$2,595 million, annual sales of \$2,285 million, and 45,000 items.

Four are in process of establishment, with an inventory of \$3,220 million, annual sales of \$1,110 million, and 1,165,000 items gross, subject to item management coding. Gross—\$5,815 inventory, \$3,395 annual sales, and 1,210,000 items, subject to management coding.

Under Study in Electrical/Electronics

Under study in Electrical/Electronics is an area with over 900,000 items, an inventory of \$3.5 billion, annual procurement of \$1.2 billion, and annual sales of the same amount.

The first four Single Managers in supplies were rather simple clean commodities—Food, Clothing, Medical, POL. The problems were not complex. The next two—Industrial and General—are more complex and the supply items involve maintenance and support items for a few weapons and weapon support equipment. The next two—Automotive and Construction—are even more complex. The decision to go further in integration of management of complex equipment involving weapons systems and missions will be tough ones. Electronics and Electrical Supplies, now under study by the Center, involve many factors not heretofore faced or solved by existing or newly activated Single Managers.

CHART 6

DOD STATUS — COMMODITY S/M ASSIGNMENTS

<u>STATUS</u>	<u>INVENTORY</u> (\$ Millions)	<u>SALES</u> (\$ Millions)	<u>ITEMS</u> (000)
<u>OPERATIONAL</u>	\$2,595	\$2,285	45
SUBSISTENCE			
CLOTHING			
MEDICAL			
POL			
<u>IN PROCESS</u>			
(Subject to IMC)			
GENERAL	485	220	100
INDUSTRIAL	480	185	610
AUTOMOTIVE	1,390	445	250
CONSTRUCTION	865	260	205
	<u>3,220</u>	<u>1,110</u>	<u>1,165</u>
GROSS (*IMC)	\$5,815	\$3,395	1,210

Project 60-11, Single Manager Systems Design Project

Another by-product of the General Supplies Study was the conclusion that there was a great need to simplify supply, financial, and operating procedures, and to develop an integrated distribution system for Single Manager stocks. This led to the establishment of the Single Manager Systems Design Project.

The Systems Design Project organization consists of a Staff Directorate, made up of representatives of the OASD (S&L), the services, and the Center. Under the Directorate is the Functional Staff, which consists of four full-time joint working groups. The Analysis Staff has a representative on each group. The Functional Staff is charged with developing the integrated distribution system, uniform inventory control procedures, uniform field supply procedures, and uniform funding and accounting procedures. It is expected these studies will be completed by December of this year (1960).

As you have listened today, I think you will agree to one thing. Everything we try to do or the services try to do in material or logistics affects you and cannot be done without your understanding and support. The need for knowledge of what comptrollers do, and why they do it, by Supply Managers is critical. Equally, Comptrollers need the same knowledge of supply management.

The additional workload imposed by these four new Single Manager assignments on ICP's and logis-

tics elements of the four military services during the establishment period of the next two years is substantial. The item management coding alone represents a big workload by the gaining and losing services.

The military departments have been the fore-runners in the development and use of advanced management techniques, both in organizations and in methods. We should never be apologetic about it. If one looks at the papers and notes bankruptcies and going-out-of-business sales we realize others, too, besides the military services make mistakes. Ours get the newspaper headlines—theirs only the stockholders know about.

However, we are in an evolutionary period. Continued pressure—some by informed people, many by uninformed—makes it essential that we in the military continually study the ways we do business.

I have given you a brief summary of the Center and some of its programs. We are trying hard to be a group responsive to the services, and with their help, to improve our over-all Department of Defense materiel management.

DON'T BE A THUPID THLOB - GET WITH THE EMPATHY

Rear Admiral Lot Ensey, USN

Captain Day told us this morning about a mule. The mule and the Commanding Officer got involved with the auditors, and the Commanding Officer had to

pay the extra money that had been spent on feed. You remember Captain Day did not tell us what finally happened to the mule. Well, I can tell him. A friend of mine, out near Fairfax, bought him. One day, he was ploughing with the mule when it suddenly coughed, fell down, and died. The farmer didn't know what to do. He was trying to figure out how he could get rid of the body when a little man walked up and said, "Ith he dead?"

"Yes, he's dead."

"Would you thell him?"

"I surely would. What will you offer?"

"Would you take twenty dollarth?"

"Sure would."

"Would you deliver him to my houth?"

"Where do you live?"

"At the River Houth up there by the Pentagon in Washington."

"Okay; I'll load the mule on my truck and meet you there in 35 minutes."

"Thee you there."

Sure enough, when my friend got to the River House, the little man was out in front waving at him.

"TAke him around back?"

"Sure."

By this time, my friend was greatly puzzled. What did the little man have in mind? He thought he would play along with him to the conclusion before askh g. So, around back he drove.

"Help me into the elevator with him?"

Into the elevator they went. 8th Floor.

"Would you help me get him down the hall into my apartment?" "Now, lelth get him in the bathtubl"

That seemed to be the end of the road, so my friend contained himself no longer and said, "What is the game? What are you doing? ---A dead mule in your bathtubl"

"Well," said the little man, "my roommate ith a dirty thlob. He comth home every night and he's thore at the whole world. He thayth to me twonighth ago, 'Who wath Mary Pickford?' I told him Mary Pickford wath an aviatrix. He thlapped me on both cheekth and thaid, 'You thupid thlob, thhe wath a movie actreth!' Latht night he came home and he thaid, 'Who wath Franklin D. Roothevelt?' I thaid he wath a prithe fighter. He thlapped me again on both cheekth and poked two fingerth in my eyeth and thaid, 'You thupid thlob, he wath a Prethident of the United Thateth!' Tonight when he comth home, he ith going to go to the bath-room and thay 'Whay in the hell ith thith?' . . . And I'm toing to thlap him on both cheekth and tell him, 'You thupid thlob, that ith a dead mule!'"

The Comptroller as a Staff Officer

What is our job? Sometimes in our actions we forget that as comptrollers we serve in a staff capacity. As individuals, we must concentrate not only on the primary skills of our business but also on developing qualities which will assist us to be skillful and effective in our staff relationships.

Let me tell you about an experience I had along this line not long ago. After I came into the Navy Comptroller's office about two and one-half years ago—with very little background in fiscal work, a close friend of mine visited me. He and I had graduated from the Naval Academy together. He had left the Navy early after graduation, had completed the long Harvard Business Administration Course, and then had become a Certified Public Accountant in a business administration trouble shooting firm. Successively, he became the Assistant Treasurer, the Treasurer, Production Manager, the Treasurer and Comptroller, and Comptroller and Vice-President, the Executive Vice-President, and the President in a good-sized manufacturing outfit.

I explained to him the trouble I was having with my people—the accountants, the auditors, the 'budge-teers', the statisticians. They did not speak basic English. They bombarded me with big tables of mysterious numbers. They gave me the jargon of the trade. They tried their secret fraternity grip and the countersign on me. None of this meant anything to me. How was I to do my job? There was no time to learn the trade and I simply had to get on with the business.

He told me that, after he became president of his firm, it happened now and then that a CPA, new in the company, would come up to see him, bringing along a set of confusing charts—you know, columns, symbols, numbers, many footnotes in fine print, and all that. Then, he would bombard the president with the countersign, the secret grip, and the jargon of their profession. My friend at first would respond by explaining that he too was a CPA, and would answer with the proper grip, the correct countersign, the appropriate jargon, and all the rest. Later, he said, he changed his approach because it took too long to go through the whole procedure. Nowadays, when a new CPA comes in and starts giving him the "treatment", he said he interrupts as soon as he sees the way the wind blows. He asks, "Well, I hear you, but what is the message?"

Empathy

This was my friend's way of telling me that, as an amateur comptroller I could make a contribution by stressing empathy, up and down. That's a five-cent word that's worth knowing about. Empathy is the ability to put yourself in the other man's place and to "feel" his problems. If you sense problems which face your boss and his subordinates—that's your job: to solve them. It is the ability to put yourself in the place of personnel down the fiscal stream from you, as well as above, and to assist them in solving their problems by your skill as a comptroller.

Empathy is a basic characteristic of a skilled staff officer. It should involve ghost-writing—the ability to use the boss's terminology, his turn of phrase, his manner of expression. A good staff officer should reflect the personality of his chief because he, like the comptroller, serves actually as part of, and by his every act demonstrates his boss' professional personality. Whatever he does, the tone as well as the hard facts of it are literally "The

Boss" to all who are touched by the act. One Admiral I worked for made such a point of this idea that the implied tone of a written communication was far more important than the actual direct-reading order itself.

Empathy thus could be said to relate to the public relations reputation of a comptroller. If he has the reputation of understanding, if he tries diligently to solve the problems of both his seniors and his seniors' juniors, he is doing a good job for comptrollership. Without both the seniors and the juniors—no job!

Empathy as a skill should apply to all of the professional areas of comptrollership. It's readily apparent, of course, that budgeting, accounting, auditing, finance, and progress and statistical reporting all require highly professional skills. These are the "bread and potatoes", the basics, the backbone of any comptroller organization. And superimposed on each one of these, empathy has its place.

In budgeting, for instance, it may apply in the way you communicate down. It isn't unusual in the budget business to hear the negative expression "No, you may not do it, there isn't enough money". How much better it would be to hear more often, "Yes, that is undoubtedly what we should do, but the law prevents us from transferring funds from here to there the way you want to do it. How would it be instead to try". In telling people "No", if it is done with empathy, you will be doing a better job for comptrollership and for "the company".

Attitude is important

This morning, one of our speakers made the point that the difficulty is with people; that the trouble with bad reports, poor estimates, or incorrect analyses is people. How true this is. When I was a young officer, there was a book on leadership which said it a little differently. It described a very frowsy motor launch. It said that the problem was not to clean up the motor launch; the problem was to fix the coxswain, the sailor in charge of the boat. He was the problem, not the boat; and that's the way in comptrollership.

People have a tendency through concentrating on developing their professional knowledge to forget about also developing other qualities which help in doing the best staff work—attitudes such as progressiveness, perspective, objectivity, patience, orderliness, thoroughness, persuasiveness, and empathy. These are characteristics that also play a large part in determining a comptroller's effectiveness in setting his reputation (and that of his boss as well) for accomplishment, and in helping generate his contribution to an organization.

One of the most important of these is progressiveness. Today, one of our speakers mentioned that any change immediately generates hostility, not only to the change but to the change agent—the individual who thinks he has an improvement, an easier way. Progressiveness requires that a man stand up and fight in the face of opposition; it requires the will to do what is best. I am sure we all have trouble in separ-

ating fact from emotion when considering a situation or problem. But progressiveness is concerned with moving forward, based on truth. As comptrollers, we are now in an era of financial reform in government. We are part of a forward movement. Change is—and for 15 years has been—an essential part of our business. An attitude of progressiveness is essential in carrying out our mandate, charter, mission and instructions.

Another important attitude is confidence. This applies particularly to an officer leading his men into battle. If he does not appear confident and does not follow the old tradition of "Come on, men, follow me" and show them how to do it—thereby showing confidence in himself, in them, in his team, his ship, his squadron, his division, his service, his country—he won't have many men going into war "with" him, either physically or spiritually. Just as in combat, to go to a conference in the comptroller business without being fully prepared, without understanding what the problem is, without determining the facts and deducing from them what the boss needs, wants, and must do in the light of his objectives—unless you are ready to approach the problem in a constructive and confident way—confident of your facts, analysis and position—you are not doing as well as you should with what you have. However, confidence in having "done your homework" must not be confused with feeling that it is your own "decision". The Number One man is really deciding things. We Comptrollers do not decide anything. We make proposals. We execute policies. We do things the way we know, through empathy, that the boss wants them done.

Obligation and expenditure Estimates

Now, I would like to turn to my last topic—one which is concerned with a new method for generating accurate obligation and expenditure estimates. I'm sure you've all had trouble with this problem. It has caused me bother when we have come up with poor estimates. It has caused me embarrassment when we were not ready in time. And, it has caused me trouble to review our estimates for reliability. Gentlemen, I must admit I'm in a state of despair on this subject. So I was fully ready for a solution. It therefore gave me great pleasure when some of the professionals on my staff generated a proposed instruction which they call "Formula For Computing Obligation and Expenditure Estimates". They tell me this will solve all of this problem. I'm under considerable pressure to get this instruction issued for use in Navy. As a technical contribution to comptrollership, I believe in the future, our successors will evaluate this development to be as important as double entry bookkeeping.

The proposed instruction reads:

"There appears to be a marked proclivity on the part of the staff to the use of unreimbursed anticipations in preparing obligation and expenditure estimates. This trend is alarming. It must be reversed if we are to continue to enjoy the high confidence placed in our estimates by fiscal and economic authorities. There will be no room for doubt of, or

argument with, figures produced if the following rules are strictly adhered to, irrespective of the assumptions currently used in handling uncollected deposits:

1. Unreimbursed anticipations will be used as a factor in estimates only when they exceed by more than 51.6% the equivalent amount of regenerated uncommitments. (Appropriated funds only).

2. If the latter situation obtains, accrued regenerated uncommitments will be treated in substantially the same manner as are deobligated uncommitments, or prepaid deferments. (All funds).

3. If the latter situation does not obtain, then uncommitted deobligations (in thousands) will be used in lieu of deobligated uncommitments, except in no-year accounts where unrealized repayments will be substituted, provided that, if the excess of the former over the latter is greater than 66-2/3%, then neither figure will be used,

Any deviation from the above rules must be cleared in writing ten days before any staff member is called on to produce an obligation and expenditure estimate in order that the impact on the economic relationship between the budget and the debt ceiling may be clearly depreciated."

In conclusion, remember the little "Mule man" and what he really was saying to his roommate. "Don't be a thupid thlob. Get with the Empathy." Maybe that should be our motto!

DEBT MANAGEMENT AND ADVANCE REFUNDING

Charles E. Walker, Under Secretary of the Treasury

Editor's Note:

The Author credits this article to Under Secretary of The Treasury Julian B. Baird in an address made at the University of Wisconsin School of Banking, Madison, Wisconsin.

Much of the text was used by Mr. Charles E. Walker in his address to the Fourth National Convention of the American Society of Military Comp-trollers.

I am happy to be here today. This school, together with other national and regional banking schools, is measurably raising the level of professional competence of a large number of men who are moving into positions of increased responsibility in the financial world.

In your work at this school you will undoubtedly acquire a great deal of information and know-how which will be of help to you in your banking careers. However, I believe that the most valuable asset you are acquiring here is a new and broader view of the role of finance in our complex modern economy.

In the last analysis the ability of the American economy to sustain orderly growth, to generate increased useful employment, to provide sufficient real capital to finance expansion, and to function as a source of strength for the entire free world, all depend on the maintenance of financial responsibility. Yet this important truth, as you know, is not well understood. Bankers, because of their integral role in

the functioning of our monetary system — and because of their special franchise granted by public authorities — have particular obligations to help educate the public on these matters. The battle to maintain sound money as the basis for a healthy, growing, and free economy is never-ending — and it is a battle in which no responsible citizen can afford to be a bystander.

Basically, there are three main links in the chain of Federal financial responsibility. Debt management is only one, but an important one, of these links. The two strongest links in the chain of financial responsibility are, of course, a sound fiscal policy — in terms of taxes and expenditures — and an independent and responsible monetary policy. Without strength in these areas there is little that debt management alone can do. Combined with effective fiscal and monetary policies, however, appropriate debt management can contribute substantially to our over-all financial strength, while inappropriate debt management can seriously undermine our success in the other two areas.

Today, therefore, I would like to focus on the link of debt management as an integral part of our vitally needed Federal financial responsibility. In implementing sound debt management there are a number of basic objectives or guidelines that the Treasury must always keep in mind. Because of the nature of these objectives and the fact that the public interest is an overriding consideration, the Treasury must approach each of its financing operations on a basis much different from all other borrowers.

First, the Treasury should manage the debt in a manner that will contribute to, or at least not inhibit, an orderly growth of the economy. To do this it should try, except in periods of recession, to place as much of the debt as possible outside of the commercial banks — apart from temporary bank underwriting. Restraint should be exercised in the amount of long-term securities issued, particularly in a recession period, in order not to pre-empt an undue amount of the new savings needed to support an expansion of the economy. A related aim should be to minimize, as far as possible, the frequency of our trips to the market so as to interfere as little as possible with the freedom of the Federal Reserve authorities to take necessary monetary actions, and so as to interfere as little as possible with corporate and municipal financing.

Second, we in the Treasury are concerned with achieving a balanced maturity structure of the debt. A balanced maturity structure is one that is tailored on the one hand to the needs of our economy for a sizable volume of short-term instruments, and on the other hand includes a reasonable amount of longer term securities. There must be some off-set to the erosion of maturity caused by the lapse of time, which otherwise brings about an excessively large volume of highly liquid short-term debt.

Third, within the limits prescribed by these two overriding objectives the Treasury, like any other borrower, would like to borrow as cheaply as possible. But, unlike other borrowers, we still must consider the impact on financial markets and the economy as a whole. Consequently, our desire to

borrow as cheaply as possible must be balanced against broader considerations of the public interest.

These several objectives are not easily reconcilable at all times, I assure you. There are those, of course, who would always assign a priority to one or another of these objectives under all circumstances. Some argue that the Treasury's debt management policy should be geared solely to cyclical considerations—in other words, that the Treasury should press long-term securities on the market to absorb investment funds when the economy is expanding, and, conversely, should put out only short-term securities attractive to the banks so as to increase liquidity in a period of recession. Others argue that the economic effects of the debt structure should be ignored, that interest cost should be the sole consideration, and, therefore, that the Treasury should extend maturities only when interest rates are low—that is in a recession—to the end that the cost of carrying the debt is reduced to a minimum.

At the Treasury we reject these extreme views and conclude that the debt cannot be successfully managed in the public interest by rigid adherence to any single formula or guideline. Rather, we take into consideration all of the various objectives and guidelines in reaching each decision.

Why don't we accept any single objective?

The answer is, I believe, demonstrable if we take a closer look at the extreme views. Those who argue for putting out only long-term bonds in periods of expansion and short-term securities in recessions ignore the practical difficulties. It would be both impossible and undesirable to adhere strictly to this view. After all, the Treasury has to have funds to meet the Government's fiscal requirements, and this at times means that a pressing need for cash may force the Treasury to market short-term issues—for which there is usually a substantial demand—even when the economy is expanding rapidly.

On the other hand, the constant shortening in the maturity of the public debt means that the Treasury must take advantage of every reasonable opportunity to issue long-term securities. From a purely house-keeping standpoint the Treasury needs to do some funding whenever market conditions permit. This does not mean, however, that the Treasury can ignore the economic effects of the debt structure and extend maturities only when interest rates are low—that is, in a recession—so as to reduce the cost of carrying the debt to a minimum. On the contrary, acceptance of interest cost as the sole consideration and consequent aggressive issuance of long-term securities in recessions would absorb too much of the funds needed elsewhere for recovery. It would unduly increase the burden on the Federal Reserve and necessitate much greater monetary ease, complicating the subsequent problem of curbing an expansion.

All of this then is by way of saying that the Treasury attempts to follow a middle course in reconciling the various objectives. We do attempt to minimize reliance on short-term financing during periods of expansion. We do attempt to handle our financing in a recession in a manner that will contribute to economic recovery. We do borrow as cheaply as possible, consistent with our other objectives. We do

try to achieve a balanced maturity structure of the debt.

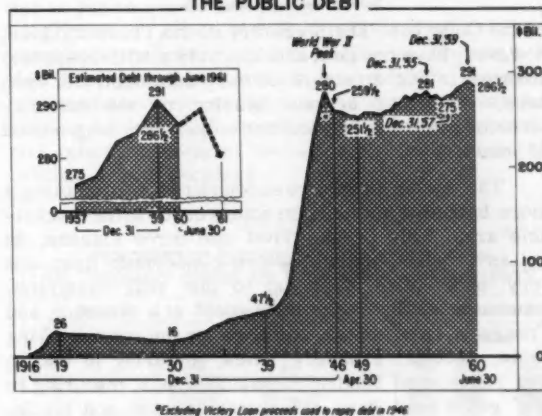
The major problem in implementing these debt management objectives that I would like to discuss with you today is this problem of achieving proper balance in the structure of our huge public debt. The nature and importance of the problem can be easily demonstrated by briefly reviewing with you where we now stand in terms of the size and composition of our Federal debt.

First, the size.

Over the history of the United States as an independent nation, our national Government has spend approximately 1.4 trillion dollars—about 90 percent of it during the past 20 years. During the same

CHART 1

THE PUBLIC DEBT

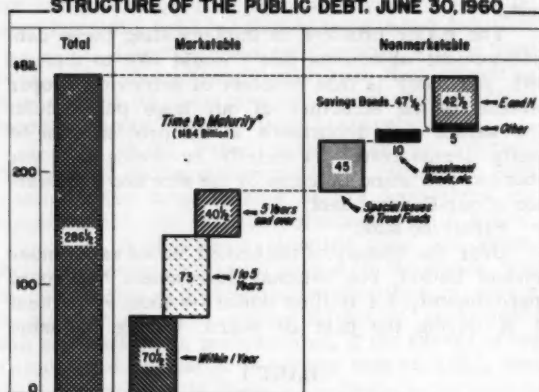


period, Government revenues from all sources have amounted to 1.1 trillion dollars. The remainder, of course, represents an unbalanced budget of a little less than \$0.3 trillion on a cumulative basis, or a public debt on June 30, 1960 of \$286-1/2 billion. The decline in the debt since the all-time month-end peak of \$291 billion reached late last year has been largely seasonal. Still, a little more than \$1 billion of the decrease reflects the Federal surplus of \$1.1 billion for the fiscal year just ended.

The importance of accumulating sufficient surplus in the expansionary phase of the business cycle to make possible some reduction in the total of outstanding debt needs reemphasis, especially in the light of our recent experience. Large deficits and a rapidly growing public debt may be justified in wartime, when we are willing to pay the cost in terms of direct controls and, ultimately, sharp increases in prices of goods and services. But in peacetime, the generation of surpluses in good times must be a cardinal principle of fiscal responsibility if we are to enjoy healthy economic growth and maintain a stable dollar.

As you can appreciate, the amount of the surplus or deficit—and hence the size of the debt—is determined strictly by the volume of tax and other receipts as against the outflow of expenditures. The major control of this matter is, of course, in the hands

CHART 2
STRUCTURE OF THE PUBLIC DEBT, JUNE 30, 1960



*Partially tax-exempt bonds in earliest call date.

of the Congress. The Secretary of the Treasury does, however, have considerable discretion with respect to changes in the structure of the public debt. But even here, important actions bearing on the maturity structure can be carried out only over a long period of years.

The major problems encountered in promoting a more balanced maturity structure occur in the marketable area. This breaks down into three classes, so far as original maturities are concerned: first, the very short-term debt (up to one year maturity), consisting of Treasury bills, sold at a discount, and Treasury certificates, sold on an interest-bearing basis; second, Treasury notes, maturing in one to five years; and finally, Treasury bonds, maturing in five years and over. Marketable notes and bonds, like certificates, are issued at present only in interest-bearing form. Because of the passage of time, of course, both Treasury bonds and Treasury notes are continually falling back into the shorter term categories.

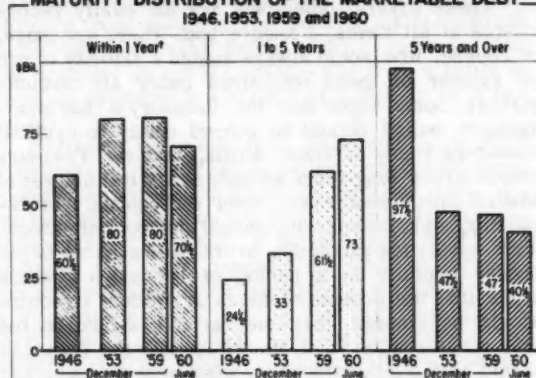
You will notice that out of a total marketable debt of \$184 billion on June 30, 1960, \$70-1/2 billion was in very short term (within one year), \$73 billion in the one to five year area, and \$40-1/2 billion in the five year and over range. The next chart will show how these structural relationships have been changing since the end of December 1946.

Simply stated, the Treasury's major debt management problem is that, merely because of the passage of time, the short-term debt is continually growing and the long-term debt is shrinking.

As you will note, the under-one-year debt was \$60-1/2 billion at the end of 1946. By the end of 1953 it had risen to \$80 billion, where it also stood on December 31, 1959. By June 30, 1960 the under-one-year debt had fallen to \$70-1/2 billion due largely to seasonal factors but reflecting also some reduction made possible by the 1960 surplus of a little over \$1 billion. I may surprise you by saying that we are not particularly concerned about an under-one-year debt in the \$70 to \$80 billion range. This is because the liquidity needs of our economy call for a very short-term debt of this size. Moreover, the fact that about \$26 billion of this short-term debt is in Treas-

CHART 3

MATURITY DISTRIBUTION OF THE MARKETABLE DEBT*
1946, 1953, 1959 and 1960



*Partially tax-exempt bonds in earliest call date.

*Including savings notes.

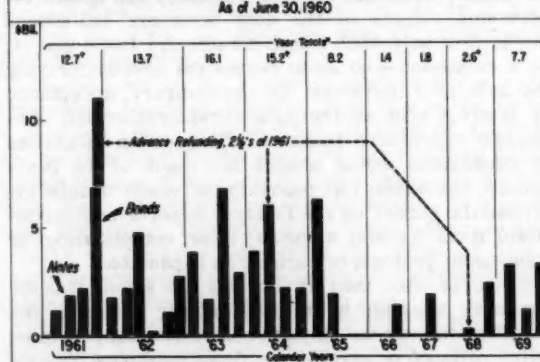
sury bills that roll over in regular weekly auctions significantly lessens the market impact.

The Treasury is greatly concerned, however, about the rapid growth that has occurred in the debt maturing in one to five years, as shown on the center bars of the chart. These maturities rose from \$24-1/2 billion in 1946 to \$33 billion in 1953 and by June 30, 1960 had increased to more than twice the 1953 total. As time goes by, and unless meaningful debt extension is achieved, more and more of these securities will tumble down into the less than one year category.

Meanwhile, the five year and over debt has been shrinking rapidly, dropping from \$97-1/2 billion in 1946 to \$47-1/2 billion in 1953 and \$40-1/2 billion at the end of June 1960. This is the area, of course, which we were unable to enter during the recent period of strong credit demands and relatively high long-term interest rates. Until recently, the 4-1/4 percent interest rate ceiling, which Congress has been unwilling to remove, has effectively locked us out of the long-term market and into the short-term sector.

CHART 4

PUBLICLY HELD NOTE AND BOND MATURITIES, 1961-69
As of June 30, 1960



*Not shown but included in year totals are the 1 1/2% exchange notes (1961-65) and Passover's of 1961.

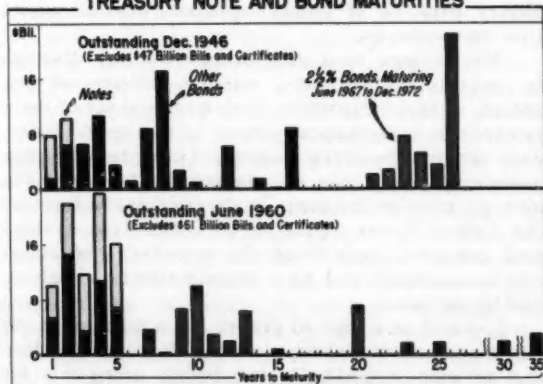
*On basis of advance refunding of 2 1/2% bond due Nov. 15, 1961.

This chart spells out the problems we shall be facing in the years ahead as we attempt to maintain or improve our present debt structure. As you will note, we have maturities in sizable volume every three months through May 1965 which, before June of 1960, was as far as we could go under the 4-1/4 percent interest rate ceiling.

You will remember from the preceding chart that as of last June, the Treasury had over \$70-1/2 billion in marketable securities maturing in one year, \$73 billion maturing between one and five years and only \$40-1/2 billion of securities running more than five years to maturity. I think all would agree this is a debt structure which is far too heavily concentrated in under-five-year maturities. With the decline in interest rates in recent months, we have been able to extend some debt—but only in a small way. We issued almost \$500 million of 25-year bonds in April, \$300 million of 8-year bonds in June, and \$1 billion more of the 8-year maturities as part of the August refunding operation just completed.

This chart also illustrates the problem which the Treasury faced until very recently, with \$11 billion of publicly held securities coming due on November 15, 1961—the largest single maturity on the Treasury's books. We were concerned about the difficulties which would be likely to arise if the market for refunding such a large issue were not favorable in November 1961. As a result, the Treasury in June offered holders of the 2-1/2 percent bonds of November 1961 the opportunity to exchange their old securities—with tax consequences postponed—for either a 3-3/4 percent note of 1964 or a 3-7/8 percent bond of 1968. As a result primarily of significant investor response to the 4-year note offering, the Treasury was able to reduce the size of the November 1961 maturity from \$11 billion to \$7 billion, thus making it much more manageable, even though it still is the largest single bond issue outstanding in the hands of the public. I shall come back to this technique, which we call "advance refunding," at several later points.

CHART 5
TREASURY NOTE AND BOND MATURITIES*



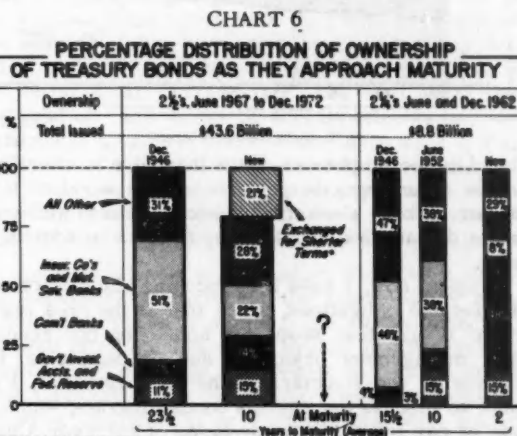
* For example, bonds to first call date either issued to date actually called or to maturity. Marketable issues originally over 12 1/2 months to maturity and investment bonds.

Chart 5 gives a striking example of the problem arising from the passage of time, particularly as it

is typified by the wartime 2-1/2 percent bonds maturing between 1967 and December 1972. These were the so-called "tap" bonds sold beginning in October 1941 and carrying on through the Victory bonds after the close of World War II. At the time these bonds were issued they provided a very good balance in maturity structure, largely because insurance companies, savings banks and many other investors had only limited investment opportunities and subscribed heavily for these issues.

If you will follow the striped bars at the upper right-hand corner of this chart down to the bottom of the chart, you will see what has happened—they have grown much shorter in maturity. Some of them were refunded into the Investment Series B bonds in 1951 (part of these in turn have been exchanged for shorter-term notes). The total amount of wartime 2-1/2's has also declined somewhat because of their use at par to pay estate taxes.

Here is a perfect illustration of a group of securities that were sold to long-term investors in the first place, but which are rapidly becoming intermediate-term securities. As such they are becoming increasingly attractive to commercial banks and other short-term investors and less attractive to their original holders.

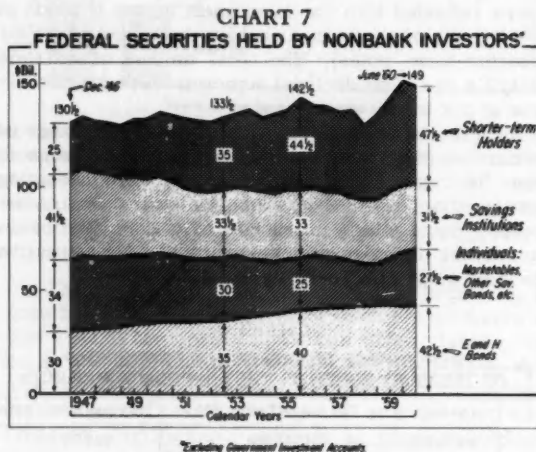


This chart carries the same point a little further. Let's start at the right-hand side of this chart with the 2-1/4 percent bonds of June and December 1962.

When these bonds were originally sold during World War II they were in the 15 to 20-year area and were purchased largely by intermediate and longer-term investors. At the end of 1946, almost half of them were held by insurance companies and mutual savings banks. Most of the remainder were held by individuals together with some savings and loan associations, pension funds, etc. Only 3 percent were held by the Federal Reserve and Government investment accounts and 4 percent were held by commercial banks. As you will see, the picture is strikingly different as of today. Commercial banks now own 48 percent of the 2-1/4's of 1962 and holdings of savings institutions and individuals are down very sharply.

Much the same sort of shift in ownership has been taking place with respect to the 2-1/2's of 1967-72, shown on the left-hand side of the chart, but as yet the shift has not gone so far.

What we would like to do, of course, is to convert some of the bonds sold in the war into longer terms, with a minimum of market impact and a minimum of interference to the flow of savings through the economy. We would like to induce people who already have our product to extend their holdings into another form of the same product, instead of losing our customers as the passage of time erodes the long-term characteristic of these holdings.



Let me emphasize again that here is where advance refunding can perform a real service. It is easier to keep a satisfied customer than to wait until he is dissatisfied and then try to sell him something else.

Up to now, I have been focusing attention on our marketable obligations, since that is the area where there is greatest scope for furthering our general debt management objectives and, in particular, for improving the structure of the debt. However, I do want to discuss our savings bonds program, which is one of our most important fields of endeavor. Chart 7 shows why this is so.

As you see on the chart, our only major success in selling longer-term securities in recent years has been to the small investor—to the millions of Americans who regularly buy Series E bonds out of their periodic pay checks. The E and H bond program has grown steadily from \$30 billion outstanding in 1946 to \$42-1/2 billion at the present time. Not only have E and H bonds represented an increasing segment of the public debt, but they stay outstanding an average of seven years, which is longer than the average of the marketable debt.

In contrast, savings institutions—insurance companies, savings banks, savings and loan associations, and pension funds—reduced their holdings of Government securities by \$10 billion during the postwar period. Even though 80 percent of this liquidation took place before 1953 there has still been only a levelling off since that time, rather than an increase. We have also failed to make progress in selling

Government securities to individuals—other than through the E and H bond program—although the trend has been reversed during the past year as a result of the appeal of high interest rates on three to five year Treasury notes.

In the last analysis, of course, the Treasury is faced with very heavy competition in attracting the funds of both these institutional investors and those individuals who do not normally purchase savings bonds. We are, in effect, competing with ourselves. At the end of 1946, Federal securities outstanding with an original maturity of more than 10 years amounted to \$117 billion. This total has shrunk to only \$60 billion. During this same period of time the total amount of VA and FHA mortgages outstanding increased from \$6 billion to \$62 billion, not to mention other forms of Federal agency and public housing debt which are aided substantially by the Federal Government. We also face understandably tough competition from the securities of State and local governments which are, as you know, exempt from Federal taxation. The expansion of State and local issues outstanding from \$16 billion in 1946 to about \$67 billion at the present time has provided the tax-exempt market with a constant flow of new, attractive issues.

The success of the savings bonds program in contributing not only to a better structure of the public debt but also in contributing to better thrift habits among millions of Americans is due in large part to the splendid cooperation of thousands of volunteer workers throughout the country. Commercial banks provide a large share of these volunteer activities and sell a large volume of savings bonds. Forward-looking bankers have recognized for many years that active promotion of savings bonds not only helps the national interest but also helps to bring new customers into every bank.

This country must generate increased saving among our people in the years ahead. In the decade of the 60's, we must provide jobs and homes for over 13 million people expected to be added to the labor force. We will need over \$400 billion of new capital. Either this will come from savings of the American people or it will come through an inflationary process of money creation, with all of its dire consequences.

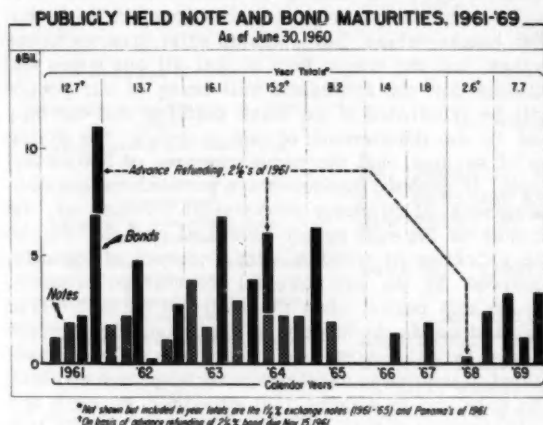
The savings bond program, particularly through the payroll savings plan, creates millions of new savers, a large proportion of whom would not of their own volition systematically build up savings deposits. Many acquire the savings habit and later become your customers. Many thus accumulate the funds for the down-payment on the home or the car that you finance. The United States could ill do without the savings bond program, both from the standpoint of sound debt management and as a contribution to a healthy, growing economy.

I should now like to return for a moment to the debt management technique which I described earlier as "advance refunding"—but before doing this let me show you Chart 4 once more, illustrating our advance refunding operation of last June.

The advance refunding of the 2-1/2 percent bonds of November 1961 provided a testing ground for the

whole idea of advance refunding. The advantage of this technique under favorable circumstances is that it can produce the maximum debt extension with the minimum of market disturbance and distortion.

CHART 4



First, I might mention that the Treasury, as noted earlier, did refund some of its 1972 maturities in advance when it issued the 2-3/4 percent Investment B bonds back in 1951. Thus, some precedent already existed on this score. On the other hand, in the interim period advance refunding had not been possible because most of the institutional investors engaging in such operations would have had to incur a loss on their books to participate in such an exchange. Many of them were understandably reluctant to reduce their surplus in this manner.

This situation was remedied, however, by new legislation passed about a year ago, which permits advance refunding to be engaged in without recognition of capital gain or loss, thereby making such an exchange more attractive to many investors. Paradoxically, this legislation was designed primarily to induce exchanges by nontaxable or partially taxable investors, regulated by State authorities, rather than taxable institutions. Our study had indicated that such authorities would be willing to permit such exchanges with postponement of recognition of capital gain or loss, provided that a change in the Internal Revenue Code established a precedent. Although the change in the Code enacted last September is believed to have removed this obstruction to advance refunding, the Treasury has not been able to make full use of the technique because of the limitation growing out of the 4-1/4 percent interest rate ceiling, which in this case must be applied to the cost of the debt extension to the Treasury. With the recent decline in interest rates, however, the time may be approaching when a significant amount of advance refunding can be

undertaken and some meaningful debt extension can be achieved.

When the Treasury offers a long-term bond for cash, it captures funds that would otherwise be available for other types of long-term securities. For that reason, cash issues have been infrequent and usually have been limited to \$1 billion or less.

There is much the same effect when a long-term bond is offered in exchange for maturing securities. The latter are almost entirely held by typically short-term investors who do not want long-term bonds. Consequently, there is a churning in the market at the time of offering as the holders of the maturing securities sell them to investors who want the long bond. Thus, the market impact of the exchange is very similar to that of a cash offering.

Treasury ownership statistics show that the remaining \$28 billion of war period 2-1/2 percent issues maturing from 1967 to 1972 are quite generally held by institutional long-term investors, pension funds, etc., who acquired them during the war at par. Because interest rates in the 7 to 12-year maturity range are above 2-1/2 percent, many holders of these bonds are "locked in," in the sense that they would incur a principal loss if they sold the securities. If the Treasury can offer them in exchange a somewhat higher interest coupon in consideration for taking a 20, 30, or 40-year bond, these investors can better their current yield and still carry the new bond on their books at par. By offering such an exchange to holders of some issues of the tap 2-1/2's, the Treasury might achieve several billion dollars of debt extension at one time, with perhaps no more immediate market impact than would be the case if \$1/2 billion to \$1 billion were offered for cash.

At first glance it may seem illogical to offer new securities maturing in the intermediate area of five to ten years as we did in the August financing, and also offer holders of securities in that area an opportunity to exchange into long-term bonds. I would again emphasize that the primary merit of advance refunding lies in offering a typical long-term holder whose bond is approaching short-term status opportunity to extend before his bond shortens to a point where he elects to sell it. Similarly, advance refunding will permit a typical holder of short intermediates (two to five years) the opportunity to exchange for a longer intermediate maturity (five to ten years) before his bond becomes so short that he is tempted to sell it.

In other words, we are seeking to keep typical long-term investors in long bonds, typical intermediate holders in intermediates, and typical short-term holders in relatively short maturities.

Although we in the Treasury believe that advance refunding offers some real possibilities for substantial debt extension, I would not want to leave the impression that it is a panacea for all the problems of debt management. It is chiefly applicable when large outstanding issues are selling at substantial discounts and in a market in which there is some willingness on the part of investors to lengthen debt.

I have said on a number of occasions that our problem of debt structure is of manageable proportions. I believe that we would have a satisfactory structure of the debt if, over a period of, say, three years, from \$20 to \$30 billion could be moved from the 1 to 5-year area into over-5-year securities (in addition to what further extension is required because of the lapse of time). This would best be accomplished by a leapfrog process—moving a substantial amount of 1 to 5-year maturities into the 5 to 10-year area, and in turn shifting a lesser amount of the 5 to 10-year maturities into the longer-term area. A considerable part of this job could best be done by advance refunding if conditions are favorable.

Discussion of the problems involved in improving the structure of our public debt inevitably comes up against the question of the 4-1/4 percent interest rate ceiling on Treasury bonds, and I should like to emphasize again the importance of removing this arbitrary limitation on debt operations. In the last year, the effect of the ceiling was not to hold down interest rates. The actual effect was to further distort the structure of the debt and by that distortion push interest rates higher than they would otherwise have been. This increased the cost of interest on the public debt.

This is not a transitory problem. It is a situation which is bound to recur whenever there is strong pressure for credit expansion. For this reason, President Eisenhower again urged removal of the interest rate ceiling in his message to the Congress

last week. Surely the field of public debt management is one in which partisan considerations have no place, and it is the earnest hope of the Treasury that Congress may see fit to remove this limitation on our freedom of action within the near future.

There is one further observation which I should like to leave with you as a final commentary on the need for sound management of the Government's financial affairs. The maintenance of sound financial policies does not mean, as some would lead us to believe, that budget considerations are more important than human values. Governments exist to serve human beings, but the tragic fact is that all our hopes and dreams for the increased well-being of our people will be frustrated if we adopt policies that can only end in the debasement of our currency, the drying up of savings, and the encouragement of booms and busts. If unsound measures are pursued and the consequences of currency debasement threaten us, the answer of the easy money advocates probably will be the shackling of freedom with a network of controls, enforced by an all-powerful central government.

In this period when the future of the entire free world depends so largely on the economic strength of the United States, we cannot as a Government afford to indulge in careless financial practices which can only end in eroding that economic strength and weakening our free enterprise system. It is this thought, in particular, which I hope you will keep continually in mind as you move up to positions of leadership in your organizations, in your communities, and—in many instances, I hope—in your nation.

% Haskell
Knox House Apt 1
Radnor St. Rd.
Wayne, Penna.
27 December 1960

Mr. Kenneth E. Dunlap
Editor, the Armed Forces Comptroller
Washington, D.C.

Dear Mr. Dunlap:

Thank you so very much for sending me a copy of your Armed Forces Comptroller which contained the notation about my husband, Chaplain Hunter.

You are most considerate in sending this tribute, and I shall keep it always.

Truly my husband lives on in the lives of the many wonderful people he was privileged to know, both in the Chaplain Corps students and Chaplains, in addition to the other branches of our Military Service. This to me is really immortality.

I am grateful that he was spared to give his final months to the Chaplain School which he loved so dearly.

Thank you for your expression of sympathy.

Sincerely,

Wile Hunter
Mrs. W.L. Hunter

Open letter to Mr. James M. Landis, Advisor to President-elect John F. Kennedy:

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WASHINGTON 13, D. C.

December 3, 1960

KENNETH E. DUNLAP
NATIONAL EDITOR
ARMED FORCES COMPTROLLER
818 NO. OXFORD ST.
ARLINGTON 3, VIRGINIA

Mr. James M. Landis
415 Madison Avenue
New York, N. Y.

Dear Mr. Landis:

An article, "Broad Changes Urged by Landis in Regulatory Agency Operations", by Staff Reporter Julius Duscha, published in the December 3rd issue of the Washington Post, quotes your list of problems which you call "Rubrics".

The use of the word "Rubrics" is particularly interesting to me as National Editor of THE ARMED FORCES COMPTROLLER since an accounting article entitled "Rubric Budget/Cost Ratios" was published in our Journal more than a year ago. This article aroused much discussion.

The use made of the word "Rubrics" in The Armed Forces Comptroller defines how the financial organization of the Armed Forces of this Nation can be strengthened by the armour of a skeletal financial control system that reaches from the appropriation down through the entire financial structure to the last accountable document. This can be accomplished by the use of electronic data processing and retrieval equipment now available to the Department of Defense.

The author, Mr. Leo J. Richards, Associate Editor, Navy, proposes that data balance and data control be accomplished by the use of such equipment. This can be done in six to eight months after the Budget for Fiscal Year 1962 is approved by the Congress.

Very truly yours,

Kenneth E. Dunlap
Kenneth E. Dunlap
National Editor

CC President Elect John F. Kennedy
Senator Stuart Symington
Mr. Maurice Stans, Director, Bureau of the Budget
Mr. Pierre Salinger, Press Secretary
Mr. Julius Duscha, Washington Post

SYSTEMIC IMPROVEMENT IN THE FEDERAL BUDGETARY PROCESS

Walter G. Held, Senior Staff Member Brookings Institution

Walter G. Held was Secretary, Committee on Government Expenditures, Chamber of Commerce of the United States at the time this Report was Submitted to the Joint Economic Committee, 85th Congress on October 4, 1957.

Much has been written in recent years about methods and procedures which conceivably would reduce the problem of budgeting to a somewhat rigid science. Improvement in accounting systems, new advances in developing and understanding cost accounting and standard costs, plus the growing interest in organization and management analysis, have led many to believe the problem of budget planning and control can be solved by the development and application of principles as precise as those of applied science. As a result, there has been a proliferation of "one-shot" approaches which presumably offer hope for the effective accomplishment of governmental goals more economically and efficiently.

Although many of these have merit, some are valueless or are based upon misunderstanding. Generally speaking, all suffer from a lack of comprehensiveness. There is no single method or "gimmick" which will provide an easy path to better federal budgeting. The approach to the problem must be comprehensive and must recognize the relationship of each procedural change to the whole pattern of the system.

Therefore, any attempt to discuss systemic changes in the federal budget process must be placed in proper perspective. Assuming the objective of the budget process is effective planning and control of the use of resources made available to the government to successfully accomplish its objectives, it must be recognized that organization or procedural changes in and of themselves will not achieve that end.

Budgeting is basically a judgment-making process. Primarily it involves a series of value judgments at every stage. It seeks answers to such fundamental questions as: What proportion of the total economy should be devoted to governmental activity? What functions should be performed by the respective levels of government in our federal system? What are the relative values to be placed upon one public function as against another, or all others? What type of revenue structure should be established to distribute the governmental burden? What improvements in government organization structure, procedures, methods and techniques will yield the most effective, economical and efficient results?^{1/}

Any consideration of systemic arrangements or an evaluation of organization, methods, procedures and techniques employed by the federal government in doing the budget job must recognize this fundamental fact. For the judgment-making nature of the budget

process presents at the same time both the governing rules for conducting it and the essence of the problems which must be overcome. At best procedural change can provide only the framework within which effective budgeting can be accomplished.

The dynamics of the problem resulting from human nature and the philosophical tenets which underlie its operation will always present an imponderable as in all cases of human administration. To bring about most effective budgeting, it must be understood that the problem is at least, if not more, one of human dynamics as it is one of mechanics.

It is within this context that the following discussion is offered. It deals with:

(a) certain general concepts and aspects of the budget process,

(b) specific features of budget structure and format

and

(c) organization problems and selected procedures.

Observations regarding the validity of present arrangements or suggestions for change and improvement are presented.

Definitions

To promote clarity, it is advisable to set forth the concept of budgeting used herein and to identify the sense in which other terms employed in succeeding paragraphs are used.

Budgeting is recognized as the process by which a plan of activities (in this particular case that of the Federal Government) is formulated for a prescribed period of time; reviewed and adopted by Congress; and the management of the plan of activities previously approved in the form of a budget according to a schedule and at a cost within resources available.^{2/} It is the primary means by which the Executive Branch plans and controls the administration of federal activities and the fundamental action taken by Congress annually in controlling government programs and the utilization of federal resources.

Other terms employed follow the normal vocabulary of federal fiscal operations. They are those contained in the Budget Treasury Regulation No. 1, as amended by Circular A-34 of the Bureau of the Budget, Circular A-11 of the Bureau of the Budget, entitled, "Instructions for the Preparation and Submission of

- 1/ U.S. Bureau of the Budget, Budget Formulation, 1945. This document sets forth five kinds of policy questions which are involved in the federal budget: 1. What proportion of the whole economy should the government comprise? 2. What should be the relationship between the government's expenditures and its current receipts? 3. How should the burden of cost be shared? 4. What share of available funds should be used for each purpose? 5. How can the desired results be achieved at the lowest possible cost?
- 2/ A. E. Buck, Public Budgeting, New York, N.Y. 1929, pp. 3-4; U. S. Bureau of the Budget, Budget Formulation and Budget Execution Manuals, 1945-1946; Harold M. Groves, Financing Government, New York, N.Y. 1952, pp. 513-514.

Budget Estimates," and other budgetary or fiscal documents.

General Aspects and Concepts

Many concepts underlying the budget process appear to need reevaluation and/or change. Many are adequate in theory but deficient in practice. It is the purpose of this section to examine certain general features of the budget system and selected concepts which underlie them. It concerns itself with (a) the determination of budgetary requirements; (b) the role of the Executive Branch; (c) the role of the Legislative Branch, and (d) the role of public officials and employees.

Determining budgetary requirements

No mechanism for determining true "needs." For many years it has been an inherent concept of federal budgeting that a fundamental determination required is the development of the "needs" of the people of the nation in order to select those which should be performed by government and the national government in particular. From a purely theoretical standpoint this provides a convenient explanation of the contents of the federal budget. However, it fails to recognize at least three important points. First, there is no adequate or standard mechanism for determining "need" in the public sphere, such as exists in the private economy. Second, it places emphasis upon the desires and wants as developed by interested individuals or groups, and not upon general welfare or the ability to support such requirements. Third, it stresses the development of such requirements by a presumably omniscient federal bureaucracy.

This concept of budgeting thus often results in the development of glorified "wish lists" rather than programs of essential needs. It in effect directs federal agencies to determine the needs of people in both the limits of this country and to some extent abroad. Further, it establishes in them the prerogative of ascertaining whether or not such functions should be performed by the national government, the state or local governments, and other nations.

To assume that the first of these determinations should be unrestrained in character contributes materially to the constantly increasing cost of government and its claim on a major portion of the economy. It is recognized that some attempt to contain these alleged "needs" is accomplished through the use of the target figure process employed by the Bureau of the Budget. Nevertheless, this feature is to a great extent undermined when the budget reaches the legislative level, where no such basic decision is made.

Governmental needs must be related to limited resources. Failure to cast the budget job in terms of accomplishing programs within limited resources magnifies the problem of controlling federal spending. It must be recognized that virtually all items in the budget can be justified from one standpoint or another. It is not a question of their true value in most cases nor of the ability of some interested administrative

unit or special interest group to develop sufficient statistics to support their inclusion in the budget. The problem to be overcome is to relate such recommendations to limited resources.

Establish the concept of budget ceiling. Since there is no automatic mechanism for determining a public need such as there is in the private economy, it would seem wise to build into the conceptual framework of the federal system a target level for the annual federal budget which would provide for essential public services and a systematic reduction of the federal debt. The primary need for such a concept is in Congress, although it should preclude all budget activity. Such a target should have as its objective the elimination of all budgetary items which are not truly responsibilities of the national government, even though the same problem might be manifested in many regions of the country and be considered nationwide in character. Thus, it is not enough simply to apply the test of generality to the problem. One must go further and apply the tests of federalism - the spirit as well as the letter of the law in the Constitution - the principles of a free enterprise system and the possible impact of the budget on the total economy before including programs or activities in the federal budget.

Unless substantial progress is made towards developing and utilizing such a concept in federal budget operations, there is little hope for bringing about truly effective budget control. History is replete with illustrations showing that "needs" of the federal government are measured by elastic yardsticks and seem to be governed principally by the availability of revenue.

Role of the Executive Branch

Executive Budget System Sound. Although there may be variances of opinion as to the advisability of an executive budget system as against a legislative or commission budget system, the executive budget system in a government based on the doctrine of separation of powers constitutes a fundamentally sound arrangement. As in all social organizations or institutions, there are weaknesses, but many of these are attributable directly to inherent difficulties in the separated powers theory itself.

By far and away the advantages of our executive budget system outweigh its handicaps. Structurally, it provides an intelligent framework for moulding proposals for Congress on public policy and enables the effective administration of public activities with both efficiency and economy. Both of these are functions assigned to the Executive Branch. Thus the role of the Executive Branch in the budget process, conceptually speaking, is that of developing a planned program of activities in dollar terms for a period of time ranging from one year to an indefinite term. Similarly, it requires the Executive Branch to effectively, economically and efficiently administer approved budget programs as an inherent responsibility of the public trust which reposes in governmental officials and employees.

President's proposed budget properly subject to change. There is a concept which has been built up

over the years, as an outgrowth of both our constitutional and political systems, that the President's budget program as presented must be adopted by Congress with little if any change, lest the country be maltreated and the President "lose face." Justification for this stand needs specious reasoning, for under our system of separated powers it is certainly the President's prerogative to submit to the Legislative Branch a proposed budget program of activities, but certainly it is not his right to have such a program accepted and implemented without change.

Value judgements differ between branches of government. Obviously, with the inherent weakness in determining governmental "needs" described above, budget programs will of necessity contain some questionable requests. All of the estimates will reflect the sundry judgments of the governmental officials and employees who have presented them. They will embody the political, economic and social philosophies of those who were responsible for building each individual part of the budget and the document as a whole. Similarly, it will have built into it the prejudices and interests of specialized groups who stand to lose or gain most by the budget determinations made. All of these when combined into a budget by the President, contain the imponderables which are present in human activity as broad and far-reaching as the making of the President's budget. They are logically subject to reasonable examination and change. Adequate yardsticks to make decisions which are unchallengeable do not exist.

It is proper that the Legislative Branch give full and thoughtful consideration to budget proposals for the purpose of bringing its perspective into play. Certainly it will be, if the democratic processes are working properly, much more representative of the wishes of the people. This does not overlook the fact that there are inherent weaknesses in the present system of representation but this is no excuse for assuming that such vital determinations as those in budgeting should be transferred to the administrative structure in the Executive Branch.

The role of the legislature must be positive and penetrating. Under our system of government, exercise of judgment in determining related values can well be accepted as a substitute for that presented by the President in his budget without the assumption that a President has "lost face" in the exercise.

The role of the Legislative Branch

How can Congress make its budget review most effective? If it is assumed the role of the Executive Branch is as described above, i. e., one of formulating programs and effectively, efficiently and economically administering them, and that this process necessarily involves varying degrees of detail, with basic decisions being generated at each successive level in the hierarchy of the budget system, a logical question is raised as to what is the proper and most effective role for the legislative body. Is it the job of Congress to engage in a series of repetitive actions which invite a rehashing of detail which has been the subject of executive deliberations? Does it not have the same basic questions to answer in its budgetary decisions which face all those primarily engaged in the federal

budget process? If so, can an examination and approval of the Executive's proposals be effectively accomplished without reevaluating or redoing each action which has taken place preceding submission of the President's budget?

Should it concern itself rather with broad program levels and program relationships irrespective of the details which comprise or underlie each program? If the sum of the budget truly equals the parts, can Congress wisely decide on a sum without delving into such questions as to the consistency of the parts of the budget which comprise it?

It is the contention of this paper that it is not within the proper role of Congress to re-do or re-examine each detail of the budget proposed by the President. To examine such detail line item by line item would not necessarily enhance its control but would actually impair it. The activities of the federal government are entirely too vast and complex for busy Congressmen or their staffs to attempt to second-guess each decision made by federal administrators on the budget, even though each may be looking at the same problems from slightly different vantage points.

Gear Congressional judgment to highest possible level. Congressional value determination must be geared to the highest possible level consistent with effective evaluation. Its role in the budget process could most profitably be devoted to determining (a) the proportion of the total economy which should be devoted to conducting the federal government; (b) determining the relative values of each major function and activity of government in light of modern concepts and needs; (c) assuring that all possible detrimental effects to the economy have been removed from the budget programs which it approves; (d) evaluating each demand for a new public function to determine its propriety as a responsibility of the federal government as contrasted to having it performed by the states or local governments, or the private economy; (e) insuring that an equitable revenue structure is provided to cover, under normal conditions, a level of budget program it approves, and (f) reviewing the efficiency and economy applied to conducting federal operations and insuring that the budget is used to remedy such deficiencies as may be found to exist.

Use "Rule of Exception" in examining detail. All this is not to say that there is not need for a detailed examination of certain phases of budgetary activities. To the extent that an examination is required to understand a program, it must be made. However, such endeavors should be premised on the rule of exception. Unless the application of general yardsticks to each of the determinations suggested above reveal soft spots or areas which require more detailed examination, it seems inappropriate for Congress to delve into such detail.

Although there are several possibilities for reducing the need for Congressional delving into the minutiae of executive budget decisions, there are at least two which offer substantial promise of reward. First, the proper organization and simplification of the budget and appropriation structure would be helpful. It should be designed to reflect more clearly (a) what funds are being requested for; (b) how much is being requested for some meaningful unit of end product,

and (c) how in general terms it is proposed this be accomplished. Secondly, it would certainly be fruitful to direct efforts at the development of simple yardsticks for use in making the above decisions with rapidity and understanding.

Should appropriations govern pending Congressional actions? A practical difficulty manifest in the system of Congressional control of the budget stems from different concepts on the function of appropriations in the legislative process. Should the annual review of budget proposals to accomplish government programs be considered an action superior to previous determinations by Congress regarding the level or type of program to be carried on? This was pointed up in the first session of the 85th Congress when the economy bloc made its first sustained drive to cut appropriations. This occurred on the Labor-Health, Education and Welfare bill and was characterized in remarks to the House by Representative Howard Smith:

"Now, my friend says, 'We have to appropriate this money because Congress authorized these things.' Congress, I expect, makes some mistakes because Congress has not been above making mistakes in past years. But no previous Congress can bind this Congress to continue appropriations on matters that a previous Congress authorized or appropriated money for, if this Congress thinks it is in the best interest of the country to reduce those appropriations or to eliminate them. If you do not accept this as a theory of government, then you cannot do anything with these bills. You cannot reduce them because they are going to keep on going up and up and up. You have to be willing to just face this issue and say this thing has got to be cut, these budgets have got to be reduced and these appropriations must be reduced, and we have to have the courage to stand up and do it and I hope that we will."^{3/}

Reviewing the function of budgeting in the governmental system, Congressman Smith's stand would seem most appropriate. The annual budget gives Congress an opportunity to review in realistic dollar terms the consequences of its previous work and the ability of the nation to support its adopted policies. Thus, it would seem proper that, even though Congress may have passed by previous action certain formulae, adopted certain programs, or established certain levels of performance, it may in its budgetary considerations decide to change or modify its previous stand in view of current fiscal realities. To look at it otherwise presents a standing invitation to special-interest spending groups to circumvent the annual Congressional review of federal programs through the enactment of fixed formulae and programs outside usual budget controls. The ultimate of such a development would be a negation of budgeting.

Appropriations should be over-riding. In view of the notable rise in the amount of funds which have become relatively uncontrollable by normal budget processes, Congress should adopt the concept that

appropriation actions are over-riding except for payment of the obligations on the national debt or similar contractual responsibilities. Where the government stands as benefactor to a special group of individuals through grants or gratuities, the level of appropriations voted should determine the amount of funds to be distributed and not some formula which may have been concocted many years previously and fixed in law.

The role of public officials and employees

Personnel with sound concepts and training essential. Since budgeting is a dynamic, judgment-making process, personnel constitutes the most important ingredient in the budget system. The extent to which they are grounded in sound conceptual bases and properly trained, will determine to a considerable degree the success of federal budget operations.

Managerial concepts which place emphasis upon the wise application of men, money and materials to accomplish objectives are only beginning to receive understanding in federal operations. A broad concept of the budget process as a prime means for planning and controlling the use of such resources to meet public objectives effectively, economically and efficiently is not found widely among managerial or technical personnel engaged in budgeting. In many areas the budget is conceived as an incidental adjunct of accounting which must be tolerated as a necessary nuisance. In some places there prevails the age-old outmoded belief that a budget is an accounting worksheet totaling estimates of what you think you can get for the next fiscal year. In other instances, the job of budget officers is regarded as existing simply to assure that the organization gets the "best deal" possible on funds.

To remedy these and other conceptual difficulties found among federal personnel there must first be instilled an understanding on the parts of both managers and technical budget staffs of the broad and pervasive nature of federal budgeting. It is important that there be an understanding of relationships of each part of the budget to the others, to the budget as a whole and to the proper role of the federal government in the economy and society.

There must be developed also a sense of public trust which goes beyond the prolongation or expansion of particular interests and agencies. Much as a banker or guardian administering a trust fund must concern himself with the wise and prudent application of funds in behalf of the beneficiary, all employees should be made to realize that the resources with which their jobs are conducted are those of the body politic. They are held in trust by them and must be used with prudence and intelligence to accomplish their job with utmost economy and efficiency.

Need for broad budget training program. Since soundness in judgment is susceptible of development through various techniques, the quality of the federal budget process can be substantially enhanced by efforts properly directed. The orderly and planned

^{3/} U. S. Congress, Congressional Record, March 26, 1957, p. 3911.

development of improved judgment-making is something which is notably lacking, or at best carried on in a disintegrated and ineffective manner. It is true that there are several training programs of a limited or unpretentious character which deal with the problem and process of budgeting. But for the most part these are mechanistic in character, and their emphasis is primarily upon forms and procedures. Stress is upon the development of memory rather than upon the use of analytical judgment.

Several years ago the Bureau of the Budget prepared a series of staff papers in the form of budget formulation and execution manuals. The materials in these documents suggest the broad and penetrating approach which is required for a proper understanding of the role of budgeting in the federal government and in the economy. Although dealing in many respects with detailed methods of computing budget requirements, these materials stress as well the interrelationships between various management concepts and functions. To a lesser extent, they deal with the economic and social impact of the budget.

There are undoubtedly revisions in these materials which could be made because of the increased knowledge on the subject of federal budgeting during the past ten to fifteen years. However, it is suggested that these materials be amplified, slightly reorganized and used as a basis for the development of a standard set of training courses within the government. This program should be directed by the Bureau of the Budget and be required of all key managers who participate actively in determining budgetary requirements or administering significant segments of the budget. This course should also be directed to all technical budget personnel and become a prerequisite to the appointment of employees and officials to budgetary positions. The impact of such training on the budgetary system in the Executive Branch could be tremendous. For although there are recognized exceptions, there are indications that the great bulk of federal budgetary personnel has not been given any significant training in the broader aspects of the budgetary process.

Qualifications of budget personnel. Appointments to budget positions are often based upon work conducted in accounting-type activities or certain administrative responsibilities. Although these skills are helpful to the development of a good budget officer or a good manager with major responsibilities for budget actions, they are in themselves insufficient to prepare the type of budget technician or budget-conscious manager which the federal government requires.

Some studies have been made as to the characteristics and qualifications which should be possessed by budget technicians. In many instances these have stressed a knowledge of accounting. Although it is essential that everyone engaged in performing federal budget functions be acquainted with the principles and practice of accounting, the great value of accounting as a tool of management and as a support for budgetary actions of itself will not produce a good budget officer. Added to this very essential accounting qualification must be vision, objectivity, imagination, foresight and the ability to plan and to comprehend

relationships between budget programs, management actions and the whole budget. Similarly, there must be the ability to give an understanding adaptation of economic and governmental principles to budget decisions.

It is not enough that these qualifications be possessed by budget personnel alone. They must likewise be present in the managers at each administrative level. It is these groups which make and are responsible for budget decisions.

Budget Structure and Format

Any consideration of improvements in the budget process must consider budget structure and the format used in the budget document. Although rapid and significant strides have been made in the structure of the budget and in the format of the budget document in recent years, much still remains to be done. It still has too many vestiges of the budget technician's approach, emphasizing procedures and mechanics rather than judgments. Thus it is weighted down with difficult and even meaningless terminology and facts and figures which require the expertness of a technician to understand.

Simplify terminology. Efforts must be made to simplify budget control by first directing efforts at the gobbledygook used. For example, the actions of the Bureau of the Budget in developing a budget for presentation to Congress each year, and the Congress in considering it, are primarily concerned with the amount of new obligational or spending authority which is being requested by the agencies and the impact which the resultant expenditures will have upon the economy and governmental programs. In doing this, there are at least five ways of providing new obligational or spending authority, e.g., appropriations, reappropriations, permanent appropriations, contract authorizations (new and permanent), and authorizations to expend from public debt receipts (new and permanent). Although the reasoning behind the use of different types of new obligational authority is recognized, such use seems highly unnecessary and only tends to confuse further a problem which is already exceedingly complex.

Since the principal question involved is how much new spending authority government agencies shall be given for either the next year or an indefinite period of time for particular purposes, it would seem much more feasible to eliminate all types of new obligational authority except appropriations and expand the term "appropriation" to include all new obligational or spending authority proposed by the Executive Branch or the Congress of the United States.

It is recognized that there are subtle implications in such a changeover which would involve changes perhaps in Congressional rules or procedures, and in certain executive and legislative concepts. Nevertheless, in acting on budgetary matters, the one question of how much of the people's resources the government will be allowed to obligate and expend anew is

what concerns most Americans. For it is the establishment of a limit for legal obligations which determines the amount of expenditures or checks issued from the Treasury.

Revise and simplify organization of budget. A second and important direction in which simplification can be made is in the arrangement or organization of the budget. The present budget document, with its primary emphasis upon organization unit is a somewhat hybrid document, being neither completely a performance or program budget nor a line-item budget. Although it manifests primarily the former characteristics, the latter certainly are not lacking.

The most logical move to bring about improvements in the organization or arrangement of the budget would be to commence with the program or performance structure manifest in the Budget in Brief. This little document has become an extremely important part of the entire federal budget process and is being given wider and wider use by public officials, civic organizations, and the man in the street simply because it gives a much clearer picture of what the government is proposing to do with public monies and the relative values it places upon the functions of government. It is simply and attractively presented in a meaningful arrangement of material.

Therefore, it would seem advisable that the budget document submitted by the President to Congress be re-fashioned and reorganized along the lines of the Budget in Brief. Fundamentally, this would require use of a primary classification which presents government programs by function, i.e., major national security, international affairs and finance, etc. Under each of these primary classifications, the appropriation structure and supplementary material could then be presented by organization unit. This would have the advantage of identifying those responsible for conducting the various functions of government. Among its other advantages, it may also simplify funding and accounting actions between agencies involved in performing parts of the same basic function. Similarly, it would serve to point up unnecessary duplications of activities and possible improvements in organization and management which would produce economy or efficiency benefits to the taxpayer.

The value of having a summary of funding and accounting information by agencies is also recognized. Such information could be made readily available by appropriate summaries on an agency basis.

Eliminate term, "newobligational authority", and redefine "expenditures." In view of the difficulties which have been manifest in recent years in understanding the difference between "obligations" and "expenditures," it is suggested that consideration be given to renaming all types of new obligation and spending authority "expenditures" and to redefine the word, "expenditures," in federal financial terminology to incorporate all such actions. Furthermore, it would seem advantageous to tighten such "expenditure" authority by precise definition in law of what constitutes a legal obligation (or expenditure if renamed) by the federal government, such as was sought by Section 1311 of Public Law 663, 83rd Congress.

The term, "expenditure," as it is now used in the federal government, namely, checks issued, should be renamed "disbursements", since this most appropriately recognizes the character of what is presently called "expenditures" in the federal fiscal process. Under current definitions they constitute simply the issuing of checks to liquidate valid legal obligations which have been incurred pursuant to spending authority granted by Congress and are virtually automatic actions.

The term, "expenditure," as it is proposed here would seem to be much more in line with what the public expects the Congress and Executive Branch to control - the true "expenditure" of fiscal resources at the point at which they are available for utilization, namely, the point where legal obligations to pay are incurred.

Consolidate and simplify appropriation structure. A third means by which the budget structure and format could be improved would be by consolidating several of the appropriations which are now split to reflect the function which they perform. Although recently some progress has been made in reorganizing and consolidating appropriation items in the Defense Department, certainly its appropriation structure illustrates this point.

Reduce size of budget document. Consideration should also be given to reducing the amount of material presented in the "big budget" which the President submits to Congress. It is recognized that such action would tend to eliminate detail which may be considered by the technicians to be necessary. However, the majority of Congressmen who are concerned with the budget and others who use it are not technicians. It should be geared to their needs, and permit them to make intelligent value judgments on budget proposals.

Several Congressmen have spoken out about the lack of detail in present budget presentations, detail which they feel necessary to make proper evaluations. This "lack of detail" has been used to attack the use of a program or performance-type budget.

Actually, there is no true inconsistency between a good program or performance budget and the provision of adequate budget detail to permit proper evaluation by the Legislative Branch which controls the public purse. It is believed that with a reorganization of the budget structure as suggested above to permit a presentation along functional lines, the big budget itself will be much more meaningful. Additional detail could well be presented in supporting documents, separately published appendices to each of the major functional sections of the budget.

Publish detail by function in separate appendices. If the budget is truly built from pieces which comprise it, the detail which would comprise such appendices would probably already be available. With relatively insignificant additional expense, it could be provided to Congress and to various segments of the public which are especially interested in each function. If properly designed, they may well eliminate the ream on ream of supporting paper which agencies develop for their appearances before the Bureau of the Budget and Congress. It could be a source of data showing, through object classifications as subordinate

parts of activities or functions, the resources or ingredients which go into performing particular end purposes.

Special analyses of overhead costs. Finally, in order that there might be a better opportunity to appraise general overhead or service-type costs in the Executive Branch, it is suggested that special analyses be provided of the amount of funds voted to the several auxiliary and staff services for the government as a whole. For example, indication should be given of how much funds are being asked for personnel work, financial management activities, purchasing administration, etc.

Organization and Procedure

Changes in organization, methods, procedures, format and the like will not necessarily yield a good federal budget. Yet, it is a fact that since budgeting is to a large extent a problem of human dynamics, these can have a profound effect upon the course of human activity which goes into the federal budget process. It certainly is of major importance that they be soundly devised and administered. Specific systemic changes are discussed below in terms of those applying to the Executive Branch and those used by Congress.

The Executive Branch

Most procedural improvement in Executive Branch. Most budget improvements since the Budget and Accounting Act of 1921 have been manifest in the Executive Branch of the government. Its concern with improvement and progress have by far overshadowed the actions of Congress on this subject.

Nor has all improvement in the Executive Branch been the result of out-side stimulus. True, the two Hoover Commissions provided somewhat independent attitudes on the budget activities of the Executive Branch and gave stimulus to or pointed up needed improvements. Nevertheless, within government itself, particularly since the 1930s, there have been numerous movements to tighten up or improve the many aspects of executive budget control. It is needless to enumerate these for they are known by most who concern themselves with this subject. Suffice it to say that the Bureau of the Budget and the Office of the Defense Comptroller have been two primary forces in bringing about such improvements. The Bureau of the Budget has concentrated on government as a whole and has been instrumental in working with the Comptroller of the Defense Department in making improvements in that department which contains the largest segment of the budget.

It is important to note that the major procedures employed in the Executive Branch are for the most part based on sound concepts. It is entirely possible, however, that with the changes recommended above, i.e., those regarding the role of public employees and officials and the budget document itself, a slightly different approach to budget control might be taken.

Emphasis should be on stewardship of public resources. Whereas the present emphasis in budgeting is placed primarily upon getting sufficient funds to run the government agency program at its existing or expanded level, it is possible that by a change in budget procedures used the emphasis could be placed upon stewardship in the use of public resources.

This is a subject which has been the concern of many over the years. Several have conjectured as to the best method of instilling in federal managerial personnel and budget staffs an incentive which would stress their trusteeship of public resources and encourage them through appropriate remuneration to conduct activities with utmost economy and efficiency. Too often the current practice develops into a "cat and mouse" game, in which the administrator seeks to utilize all funds made available to him lest he be penalized for his efficiency in using less than was given.

Similarly, in presenting requests it is not unusual to find the request somewhat inflated because of a recognition that "there will probably be some cutting anyway." To overcome this is, of course, a tremendously complex problem in human relations, but it is not insurmountable.

Perhaps consideration should be given to development of several related budgets which provide a more comprehensive control over the use of resources. This would seem to require at least a series of budgets on an accrual basis controlling inventories, personnel, resources, purchasing, contracts, etc., and would concentrate on showing the principal resources to be applied by an agency and their source in accomplishing a governmental function or activity. When approved they would set the limit for that agency. Such limitations would be in dollar terms and thus would provide a comprehensive control over the men, money and materials which are used to achieve the government's goals.

Although it is an over-simplification to describe it as such, an approach may be worked out somewhat as follows: Assume that Agency X is involved in regulating narcotics traffic. A certain amount of resources both of a personnel and materiel nature are required to accomplish this. (Materiel as used here includes supplies, facilities, structures, etc.) It would prepare budgets for principal categories of resources to be used, and indicate the sources of materiel to be employed. For example, it would show whether the materiel to be used was to be gotten from new purchases or be drawn from inventory, and the budget could in effect establish inventory levels. Similarly, manpower and dollar levels could be established to govern personnel costs. Such an approach as is suggested follows to a considerable degree, with appropriate adaptations, the approach used in developing business budgets, and combining them into a master budget.

Changes under present system. In the absence of a change in the conceptual approach to budgeting in the Executive Branch, there are certain improvements in the present system which can be made. Some of these are: (a) building the budget from zero;

(b) tighter use of apportionment and allotment controls to effect economies or improve efficiency; (c) stating personal service schedules in costs per man-years; (d) improving the concept of reappropriations; (e) eliminating the project order system; (f) establishing a single account for no-year funds, and (g) granting the President the power to veto riders on appropriation bills.

Build budgets from zero. It would seem wise for executive agencies to build their annual budgets from zero rather than start with existing programs or program levels regardless of whether such programs may be required by law. Estimates of budget requirements would be built accordingly rather than developed to care for simply expanding or contracting needs. Justifications could follow the same pattern and be designed to attest to the validity of the program at the level at which it is proposed it be conducted.

Certainly, such an approach would be more advantageous to the taxpayer. The annual reevaluation of each basic program and its component parts in light of current conditions would serve to eliminate activities where appropriate. Through such efforts, the knowledge which would be gained by the administrators dealing at first hand with these programs could be transmitted to the legislative body and possible changes effected if legislation were necessary.

The theory of using existing levels as a base in computing requirements is fundamentally a fallacious one. It will not promote sound budget control.

Apportionment and allotment controls. Improvement in budget execution can be realized from a stronger use of budgetary control devices such as apportionments and allotments. Though many decry the forceful use of the apportionment power by the Chief Executive and the withholding of funds from agencies for certain purposes, this power and its forceful use is essential to the executive budget system.

The Chief Executive, as has been noted above, is inherently responsible under our system of government for the efficient and economical administration of the budget program approved by Congress. This requires daily attention. Since it is assumed by Congress, under normal circumstances, that the budget is fundamentally a set of estimates and agencies may require supplementary funds in the form of a supplemental or deficiency appropriations, likewise it must recognize that the original estimates of funds and the appropriations made may be excessive to the actual needs of federal agencies. Recognizing this fact, the Chief Executive must be able to withhold funds from agencies in order to deter the unwise use of federal fiscal resources.

Under current concepts, the Bureau of the Budget considers its role somewhat circumscribed by limitations in the Budgeting and Accounting Procedures Act of 1950. Such limitations should be eliminated if the intent of the Act was to so tie the hands of the Chief Executive. On the other hand, if the limitation which it is felt exists by the Bureau of the Budget is the result of a narrow interpretation of legal provisions, consideration of revision should be given.

State personnel requirements in man-years. Some improvement in the reporting of personal services in the budget (01) schedules can be made. Present practice is to state personnel requirements in positions and total annual salary rates, and then reduce them by a factor termed "lapses" to average number (man-years) and actual salary costs, in a one-line entry.

Regardless of the expression in the budget as to the number of positions and total salary rates, the effective manpower and true salary costs of a program can be expressed only in man-years of employment and the actual dollar costs related to such employment.

Concept of reappropriations. Certain reappropriations which are now often excluded from tabulations of new obligational authority should be included. All actions involving the reappropriation of lapsed funds were so carried until recent years when the Bureau of the Budget changed its method to exclude certain reappropriations for continuing programs as the granting of new obligational authority. Since these funds would normally lapse and result in savings to the taxpayers, their reappropriation is in effect the granting of new authority, which otherwise would not exist. The present practice distorts considerably the true totals of appropriation acts.

Eliminate Project Order System. The project order system of the Armed Services should be eliminated or substantially modified. The former is preferred, for with a properly designed appropriation system, the need for the project order device is eliminated. It is a device which is subject to flagrant abuse, as has been demonstrated in several investigations by the General Accounting Office. Project orders, which are orders of one government agency on another and are recorded as legal obligations, permit the preservation of spending authority by an agency even though they do not constitute an obligation in the legal sense. Consequently the records of funds actually spent are distorted, and the judgments of reviewing authorities may be in error correspondingly.

Establish Single Account for Multiple or no-Year Funds. Adoption and implementation of Recommendation No. 17 of the Second Hoover Commission report on Budget and Accounting would be helpful in enhancing administration. It "requires that each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for liquidation of valid obligations." This would simplify accounting and permit simplification of the budget format on the long-term program of each agency.

Presidential power to veto riders on appropriation bills. Suggestions have been advanced from time to time recommending the granting of the item veto power to the President. Although such authority works satisfactorily in several states, its application at the federal level is questionable. The political implications of such a device suggest that it not be adopted. However, consideration should be given to granting the President authority to veto riders on appropriation acts.

The Congress

Need for comprehensive study of Congressional budget system. Since action by Congress constitutes the focal point upon which all budgeting in the federal government is centered, it sets to a large extent the tone for the rest of the government. To the extent that the Congressional system is deficient, its weaknesses are passed on and expressed in varying ways throughout governmental operations.

This is a most disturbing situation since Congress itself is probably most in need of improving its role in the federal budget process. Although significant advances have been made in the Executive Branch, the Legislative Branch has been remiss in not making a comprehensive review of its own handling of the budget, and devising substantial improvements. Only once since the Budgeting and Accounting Act was passed has there been an attempt to comprehensively review Congressional fiscal organization and management. This was in the LaFollette-Monroney Committee on the Organization of Congress which came forth with several proposals which were somewhat unrealistic politically and were unsuccessful.

The system of separates. The primary difficulty with Congressional handling of the budget lies in its "system of separates." Both in its organization and in the procedures employed in reviewing the budget program submitted by the President, it works in a loose and disintegrated fashion. The budget, though submitted to Congress as an integrated whole, is immediately upon introduction broken down into 12 to 15 appropriation bills and considered separately by a series of subcommittees.

It is understood that Committee action on subcommittee recommendations is somewhat perfunctory in most cases. Disagreements within the committees are more likely to be fought out in the Committee of the Whole or on the floor than in appropriation committee deliberations.

Even though the budget is presented as a whole, and over-all figures for revenues and expenditures are summarized in it, these are generally lost sight of in the detailed examination of the budget. There is need for coordination between decisions made on expenditures and anticipated revenues. The impact of such decisions on the economy is well recognized, and thus it demands orderly, constructive and responsible action by Congress.

In a similar fashion, committee organization fosters consideration of various budget aspects separately. In addition to the House and Senate Appropriations Committees, there are at least the following committees who take actions of particular significance to the budget: Senate Finance and Government Operations Committees, House Ways and Means and Government Operations Committees, the Joint Committee on Internal Revenue Taxation, the Joint

Economic Committee, and the Joint Committee on the Reduction of Nonessential Expenditures.

An obvious goal in overcoming some of these difficulties is to effect budget decisions in the light of a pre-determined budget policy. The whole budget picture should provide the perspective for decisions on each part. Several suggestions have been advanced for achieving this goal.

The Legislative Reorganization Act of 1946 provided for a Joint Budget Committee and the establishment of budget ceilings. The organization and procedure provided was beset by political impracticalities and has not proved workable, despite the meritorious objective itself. Its failure, however, should not be the sign for disillusionment or the abandonment of hopes for a solution to this problem. Two suggestions have been offered which may be helpful in overcoming this deficiency.

Some years ago it was recommended that there be an omnibus appropriation measure and it was tried by Congress. The test it underwent was inconclusive. It neither proved its worth nor its inadequacy.

Some logical objections have been raised to it. It is claimed that - "The only procedural difference between the omnibus and separate bill approach is, that under the former the Committee holds the separate bills until all are ready for reporting. The net effect is to report some 12 bills simultaneously in the form of chapters in a single measure."^{4/}

There is considerable validity to this view and the omnibus bill may have the disadvantage of delaying the appropriation process. There is, of course, little difficulty involved in holding up the passage of appropriations for a period of time, providing passage is accomplished sufficiently before the beginning of the fiscal year to permit orderly financial administration.

Two appropriation bills. It is suggested that perhaps the use of two "omnibus bills" - one encompassing national security activities, and the other encompassing all other functions of government - may offer a solution. Such a move would facilitate a look at the budget as a whole, or at least considerably more so than under the present system.^{5/}

Joint Budget Policy Conference. Another feature coupled with this might make it even more practicable. In 1955 the Committee on Economic Development suggested that "The relations between expenditures and revenues, and the effects of the size of the budget on incentives and growth, be considered by a Joint Budget Policy Conference."^{6/} It proposed that this conference be composed of Congressional leaders, and majority and minority members of the appropriations, revenue and Joint Economic Committees. It would meet shortly after the budget was submitted to discuss major revenue and expenditure problems. It was felt that even though this conference might not arrive at any conclusions, their discussions

4/ Robert A. Wallace, Protecting the Public Purse, reprint of summary of doctoral dissertation in the Congressional Record, September 19, 1957, p.A-7741.

5/ Marcellus Shield, former Clerk of the House Appropriations Committee, proposed this in 1947. See George Galloway, Reform of the Federal Budget, Wash., D. C. 1950, p. 92.

6/ Committee on Economic Development, Control of Federal Government Expenditures, New York, N.Y. 1955.

would provide adequate guidance to appropriation subcommittees and to the chairmen of revenue committees.

Legislation affecting the budget. The appropriation committees should be geared directly into the consideration of legislation affecting the budget. Too often actions are taken by legislative committees alone which have a distinct effect upon the budget. Commitments for the establishment of formulae, quotas, etc. in aid programs are often made in basic legislation, which may alter considerably budget balances in the future. Normally, these are not processed through appropriation committees. To remedy this, Congress should be provided with comments of the appropriation committees on such legislation and a determination of full costs.

Permanent and indefinite appropriations. The use of permanent and indefinite appropriations should be studied carefully with an eye to eliminating them. Although there might be a recognized obligation on the part of the federal government to pay such fixed charges as are handled by these appropriations, for example interest on the public debt, there seems to be no substantial reason why these could not be acted upon annually. Such fixed charges can be estimated with a reasonable degree of accuracy. Even though no discretionary action could be taken by Congress, it would be required to look at the budget more comprehensively.

Adequate staffs. The question of adequate staffs for appropriation committees is something which requires constant re-evaluation. With the budget growing in size and complexity, there is need for considerable professional analysis of budget requests. The size of the staff should be carefully evaluated and supplemented if necessary. This decision would be to a large extent dependent upon the character of decisions that Congress exercises.

Long-term and capital development programs. One of the features of the budget which causes some confusion is proposals for long-term fixed charge and capital development programs. These are intermingled with current operational requests of agencies and make it difficult for reviewing agencies to comprehend. It is suggested that the possibility of using separate subcommittees on the appropriations committees to conduct studies of long-term fixed charge and capital development programs be explored. This would institutionalize the concern of Congress with these programs and tend to focus attention upon them annually.

Improved presentation of information. It has been stated many times that one of the major difficulties in effecting Congressional control over the budget lies in the lack of or insufficient information available to Congress. This does not necessarily stem from the lack of voluminous materials prepared by federal agencies in support of the budget, nor of the budget document itself. Testimony and views are amply recorded in thousands of pages of Congressional hearings. In addition, much information is prepared in separate special analyses, justifications, etc., which are used as supplementary material in making budget decisions.

The difficulty appears to lie more in the direction of the quality and the organization and presentation of the information than in volume. Certainly, the current amount of information provided should be sufficient. In fact, if adequate general yardsticks were established by Congressional action to measure budgetary requests and make decisions, it is likely that much of the existing data could be eliminated.

There is implied in this a belief that neither the members of the Appropriations Committees nor their staffs have sufficient time to analyze and digest the submitted testimony. At best, only the high points can be skimmed from these discussions. Thus, it would seem that improved organization and presentation of supporting data would aid staffs immeasurably. Much of this is, of course, entwined in the budget and appropriation structures, and part of the remedy must be looked for in that direction.

Realign Appropriation Subcommittees. Consideration should be given to the realignment of appropriations subcommittees along functional lines to correspond with the recommended reorganization of the budget itself. Although special subcommittees may be required to study unique problems or aspects of the budget, organization along functional lines could simplify and facilitate handling and enhance understanding.

Consolidate number and simplify language in appropriations. Although considerable improvement has been made in the appropriation structure in the past few years, there still remains much which can be done. There still appears to be too many appropriation items, and too much detail in the language of appropriations. A reduction in the number, simplification of the language, and elimination of detailed data in appropriations should be an objective in any plan to strengthen control over appropriations.

Expand jurisdiction of Appropriations Committees to all budget matters. It also seems imperative that all actions granting the authority to obligate and spend federal fiscal resources be subject to the jurisdiction of the appropriations committees. It has been recommended above that all such authority be identified as "appropriations." This implies that the present practice of permitting legislative committees to pass upon authorizations to expend from public debt receipts without action of the appropriation committee be discontinued. To get effective budget control, all authority to obligate and expend public funds should be subjected to the check of appropriations committee analysis. This has the advantage of injecting a degree of objectivity which is not present in the existing system.

Budget conferences for Congress. Congressmen in general who are not members of the appropriations committees require better organized and simpler information on the budget than they now receive. However, this in itself is not enough. They in turn must be given an appreciation of the nature and operations of the federal budget process, an understanding of the decisions they are being asked to make, and some general yardsticks which will help in their evaluations. Some formalized means of providing an orientation program on the importance of the annual budget review by Congress and the budget process

should be undertaken. A series of conferences or seminars shortly after the elections or the beginning of a session could well improve understanding and thus the quality of the decisions Congressmen make on the budget.

Closer relationship of GAO to budget process. One of the principal means by which Congress could improve its actions on budgetary matters would be by a more direct tie-in of the General Accounting Office to the appropriation process and greater utilization of it. With the improvement in organization and the reorientation which this office has experienced in recent years, it holds enormous potential for improvement in the Congressional phase of the budget. Continued emphasis by the GAO on the conduct of comprehensive management audits can do much to point up improvements in governmental organization, methods, and procedures which will result in budgetary savings. It also can identify the use of fallacious economic principles, or the improper application of funds. Similarly, there can be an identification of overlapping or duplicating functions.

It has been recommended by one author that similar objectives can be accomplished by the effective implementation of Section 206 of the Legislative Reorganization Act of 1946.^{7/} Basically, this section, providing for analysis of federal activities by the Comptroller General, would determine the degree of efficiency and economy used in expending public funds. This would be submitted to the appropriate committees, including the appropriations and government operations committees.

The direction taken by the GAO in its management audits suggests that it intends to accomplish the role proposed in this section of the Reorganization Act. The data which will come from such efforts will undoubtedly facilitate Congressional budgetary decisions.

It is not enough, however, that analyses be made by the GAO and reports submitted to Congress. A closer gearing of the work of the GAO to the appropriations committees would be most desirable. This might be effected by providing for representatives of the GAO familiar with agency operations to be present at appropriation committee hearings and discussions of the budget of each agency. It might also be aided by submission of summaries of GAO views to each member of Congress regarding the agency's requests in light of past performance as revealed by its audits.

Strengthen "1311" certification procedure. Section 1311 of Public Law 663 of the 83rd Congress permits a certification procedure which requires

agencies to make an unqualified certification of valid legal obligations on their books at the end of each fiscal year. This should be strengthened and penalties inflicted for the failure of agencies to comply. The whole 1311 procedure has a healthy effect on increased honesty in governmental accounting. There would seem to be little reason why any certification of federal accounts which involve public monies should not meet the standards which apply in commercial practice.

In addition, the General Accounting Office should provide regular spot audits of the accounts on which 1311 reports were based. Cases of erroneous certification should be prosecuted just as is any other improper handling of federal money.

Use budget to improve management. It must be recognized that many, if not a majority, of budgetary decisions are in some way concerned with problems of organization, management, procedures and inter-governmental relations. For example, the decision as to the amount of funds to be given for defense activities can hardly be divorced from the problem of organization, methods and procedures used in the defense establishment. To the extent that they are wasteful or uneconomical, effective budgeting is impaired. Budget control by Congress should be used as a means for effecting desired remedies.

The function of examining efficiency and economy in governmental operations is vested in the Government Operations Committees and the Joint Committee on the Reduction of Nonessential Federal Expenditures. The work of these committees is inherently connected with the job of the appropriations committees in considering annual budget requests. Consideration should be given to effecting closer coordination between the work of these committees and the appropriations committees, or possible consolidation of them.

The above deficiencies and remedies are suggested as possible avenues by which improvements could be made. It is not suggested, however, that these be accepted on their face alone. It is the writer's belief that any major changes in the Congressional system for handling the budget should be premised upon an intelligent, systematic and objective bi-partisan study by Congress of the problems of federal budgeting and all possible remedies. Such a study should be undertaken by competent budget technicians from the educational world, the Executive Branch, and the staffs of Congressional committees. It should be undertaken as soon as possible for it stands as a prerequisite to substantial improvement in the system of federal budgeting at all stages.

^{7/} Robert A. Wallace, "Protecting the Public Purse," reprint of summary of doctoral dissertation in the Congressional Record, September 19, 1957, pp. A-7740--A-7742.

ELECTRONIC DATA PROCESSING

Colonel Marshall R. Gray, Former Director of Statistical Service Office
of the Comptroller of the Air Force

We in Statistical Services have had a most eventful year. On one hand, we can look back upon considerable progress in a number of areas. At the same time, and in spite of our best efforts, some of our endeavors have not been as profitable as we had hoped. Even in those instances where some degree of success has crowned our labors, the progress made has served but to raise still other and even more formidable problems. This, of course, is a perfectly normal situation and will continue to be the pattern of things until the millennium - which, it is doubtful any of us will be present to witness.

Of the many problems which face us today, I have chosen to dwell upon those in the following areas.

CHART 1

The Questions

I DATA PROCESSING EQUIPMENT

- A. HOW SHALL IT BE SELECTED
- B. WHAT ARE THE NEW DEVELOPMENTS

II EDP AT BASE LEVEL

- A. WHAT IS OUR CONCEPT
- B. WHAT ARE WE DOING IN PRACTICE

III EDP APPLICATIONS

- A. WHAT ARE THE EXISTING EVILS
- B. WHAT CAN WE DO TO REMEDY THESE CONDITIONS

I am not at all certain that these are the most pressing issues which we face. I am certain, however, that all are vital, and all have a significant bearing upon the future of the Air Force EDP program.

Initially, then, let us consider a problem which is one of practicality from the point of view of the job to be done as well as from the point of view of the economics involved. That problem is one which concerns the selection of data processing equipment.

The continuing upward spiral of our costs for this equipment - particularly for EDPE - coupled with the increasing number of manufacturers offering such equipment makes it essential that our selection procedures be scientific (in the classical sense), be free of bias and beyond any possible reproach. We must make absolutely certain that all manufacturers

with equipment to offer within the appropriate capacity class have received fair and equal consideration.

As a practical matter, the general characteristics of the equipment systems which are available today have so much in common that the determination of the one system which would be the most efficient and the most economical for the job to be performed can be a most difficult task. Along with the similarities, however, we usually find that each of these numerous systems has certain individual features and advantages which can be used to assist us in making the ultimate decision. We find, therefore, that it is possible to arrive at a position where all of the main variables may be brought clearly into focus. To do this, however, requires a major study. Further, such a study must be performed systematically and must use criteria which are both objective and realistic.

The great number of details which must be developed in such a study is such that quite often we find this to be beyond the capability of any individual installation. This is true both from a workload as well as a technical standpoint. A practical approach to this problem, and one which has been used successfully by a number of installations, consists of presenting each of the various manufacturers with a case problem which represents the data processing requirements previously established in the feasibility study. The contractors are invited to submit a proposal which clearly reflects detailed systems, timing estimates and costs. These proposals then become the basis for the comparative analysis leading to final selection. Needless to say, in the interest of equal consideration, all competing manufacturers must receive identical details and guidelines concerning the standard case problem. They must be given equal, reasonable time for preparation of their proposals, as well.

The general guidance and criteria to be included in a selection study are specified in AFM 171-9. I shall not dwell upon these items in detail at this time. Suffice to say that in developing the study, every effort must be made to be objectively realistic and to avoid personal biases or prejudices which might influence the selection of one system over another.

All possible factors should be reduced to dollar values, or other common denominators, where practical, thus permitting direct measurement and comparison. These would include such items as:

- Contractual terms
- Direct equipment costs
- Power and space requirements
- Cost of installation
- Cost of maintenance contracts, if applicable
- Operating personnel required
- Cost of supplies and materials
- Programming costs

There are additional factors of a less tangible nature which must be considered also and which exert

an influence on ultimate selection. Although they do not lend themselves to discrete measurement, they can be adapted to a ranking procedure based on judgment. Examples of these factors are:

- Expansibility of the system
- Delivery schedule in relation to actual need
- Complexity of programming
- Extent of manufacturer's support (initially and on a continuing basis)
- Availability of automatic programming aids
- Reliability of the equipment manufacturer

Aside from providing a uniform and factual basis for the comparisons between different equipment systems, the Air Force derives a further advantage in having a number of contractors work simultaneously on independent solutions of a common case problem, since this often results in bringing conceptual improvements in the planned data processing procedures to light. In view of the close scrutiny which equipment recommendations receive, it is quite important that selection studies include sufficient detail to prove conclusively that the recommended system is indeed the most economical and efficient for the particular requirements of the installation.

Thus far, we have been addressing ourselves solely to the selection process as it pertains to EDPE. A broader interpretation of this process, however, involves PCAM as well. For a few minutes, therefore, let us consider this less sophisticated, but still necessary and effective means of data processing.

All of us are aware of the tendency for the glamour and glitter of EDP equipment to overshadow PCAM. This is understandable when you stop to compare the capabilities of punch card equipment with the fantastic speeds and capacities of the new electronic gear. At first glance, the old work horse of the data processing business may appear to be a good candidate for the museum.

Nothing could be farther from the truth. There are many places where we cannot justify EDP that are fertile areas for automation. This is particularly true where a relatively small volume is involved, or where we are plagued with one-time type reports and where many of our existing reports are subject to frequent changes.

Since most of us will concede that there is still a place in data processing for PCAM, let us look at some of the items we should consider in this matter of selecting PCAM or EDP equipment.

First, we must determine the total data processing job that is to be done. Then, based on this knowledge, we should select the most economical gear that has the capability to do the job. We must get what we need, but at the same time, we must keep the economics of the thing in mind.

We should not be guilty of selecting a tractor to move a ton of paper when a pickup truck will do the job just as well - perhaps even better.

Second, we must remember that this is a dynamic Air Force. As it changes, so do our reporting requirements. Perhaps it is a good idea, therefore, to have some of our one-time type reports and some of the other reports that are subject to frequent

change on PCAM. Otherwise, the job of programming and reprogramming may break our back in the EDP area.

The third item we must consider is the technological advances that have been made in punch card equipment. While it cannot be denied that EDPE has caused a revolution in the realm of data processing, we should not overlook vast improvements that also have been made in the punch card line. For instance, it is now possible to sort cards at the rate of 2000 per minute - compared to 750 a short time ago. Also, in the past two years, collating speeds have increased from 440 to 1300 cards per minute. These are just two examples of many such advances.

Fourth, we should not forget that PCAM can be used to augment a central EDP installation. When we have a number of small installations that do not have the necessary volume to support an EDP operation, it is possible that PCAM would be feasible at these locations. The products produced at these sites would serve local management, and, in addition, they would create data for direct input for EDP located at a higher echelon.

The fifth consideration concerns the punch card itself. Basically, the punch card is an ideal common language medium which is comprehensible to both man and machine. It can be handled, sorted, corrected and manipulated physically. Frequently, it is the source document itself.

Last but not least is the question of economy. Our objective is to select the equipment that has the greatest excess of value over cost. Therefore, we should weigh installation and operating costs of both PCAM and EDP equipment carefully along with the degree of responsiveness that is required. Many times we will find that in spite of the speed and capacity of EDP equipment, the potential benefits will be greater if we select a punch card system for data processing jobs.

This brings us to our second question which concerns new developments in data processing equipment.

For the past several years, we have been hearing of major break-throughs in the field of electronic data processing - breakthroughs which will usher in the second generation of digital computing equipment. And from all appearances, such is the case. The use of transistors, ferrite cores, magnetic amplifiers and printed circuits are to computers what solid propellants promise to be to missiles.

Thus, while we should understand that the new so-called solid state systems will not create the revolution in data processing that the move from punch card machines to electronic computers did, the differences between the vacuum tube devices and the new solid state equipment promise to be significant.

Rather than plague you with a technical comparison of present day versus future EDPE specifications, I should like to mention instead, the results which we expect to achieve from the coming equipment improvements.

First. As a result of the smaller amounts of materials used and less stringent engineering requirements, we can expect lower purchase and rental costs. Present estimates are that solid state gear

will average between 50 and 75 percent of the cost of existing equipment of comparable capacity.

Second. Reduced requirements for weight support, cables, power equipment, air conditioning and the size of the components themselves will mean lower installation costs.

Third. An overall increase in the speed of the new system, plus lower power consumption to operate the computational gear and its attendant air conditioned environment will result in lower operating costs. It is estimated, for example, that the solid state equipment will operate at speeds up to 40% faster than existing systems.

Fourth. Due to both simplification and reduction in moving parts, maintenance costs will be reduced.

From this, we can conclude that the new solid state data processing systems will produce work more economically and with less out-lay of dollars than existing systems. In this regard, the proof of the pudding will soon be a matter of record, since the solid state computer era is expected to begin late this fall.

Although my discussion on new equipment has centered, in the main, around the solid state data processing systems, it is important to point out that there are several other development efforts or techniques which ultimately may offer the customer as much, if not more, than solid state equipment. Among these are character reading devices which will permit the introduction of either typewritten or manually

transcribed data directly into an automatic system. Considerable progress has been made in this area and it has proved to be beneficial in certain limited applications.

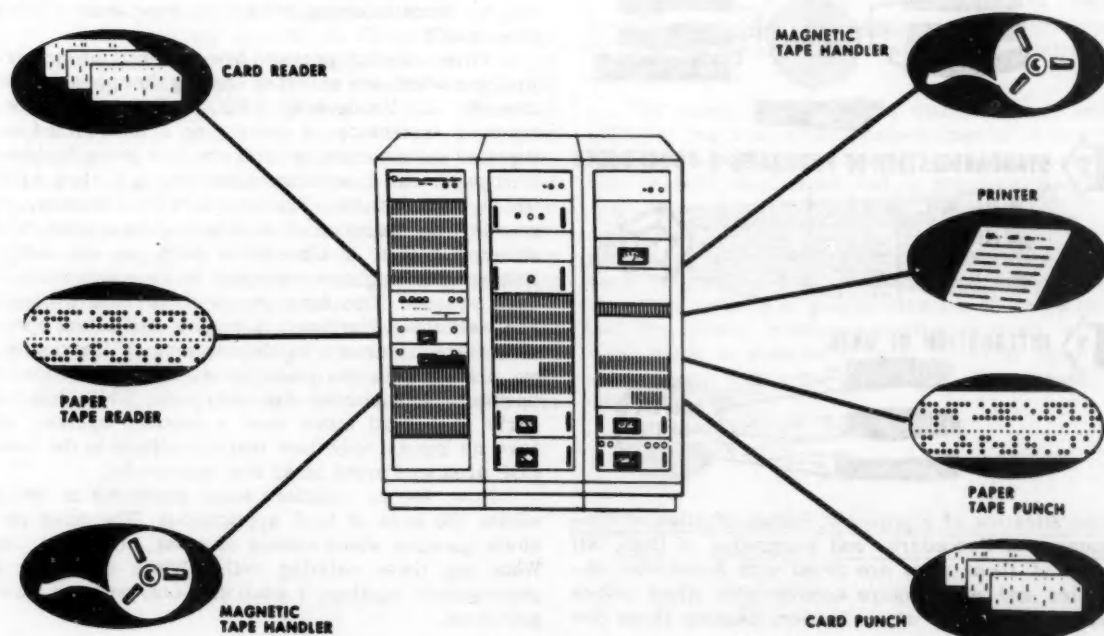
In the area of common language equipment, sometimes referred to as translation or conversion systems, advances have taken place also. Much has been accomplished in the establishment of a "COM-LOG" network utilizing automatic relay stations and buffer units to communicate from one system to another. An example of such a conversion device is the ECCO computer language translator. This is not a futuristic device, but one which is on the shelf right now, and, in fact, is being used by some governmental agencies as well as by industry.

Finally, in the field of automatic programming, a technique which will allow us to communicate directly with EDPS in everyday English, we are making steady progress. This technique is undoubtedly one of the most important advances in the data processing field. The Air Materiel Command, in collaboration with the Sperry Rand Corporation, has developed an automatic programming system referred to as AIMACO. In this system, programmers write their programs in English language sentences which can be read and understood by management personnel. These same sentences are then read into a computer and "compiled" to give the actual machine program.

From the foregoing, I am certain that you can see that the pattern which has been with us for a

CHART 2

ECCO TRANSLATOR



number of years has not changed: technology continues to keep ahead of man's ability to use it to its fullest extent. On the other hand, our progress in the use of more advanced techniques has been more pronounced in the past year than in any other 12 months since the advent of data processing within the Air Force. We are forging ahead.

But this is enough in respect to equipment and equipment selection.

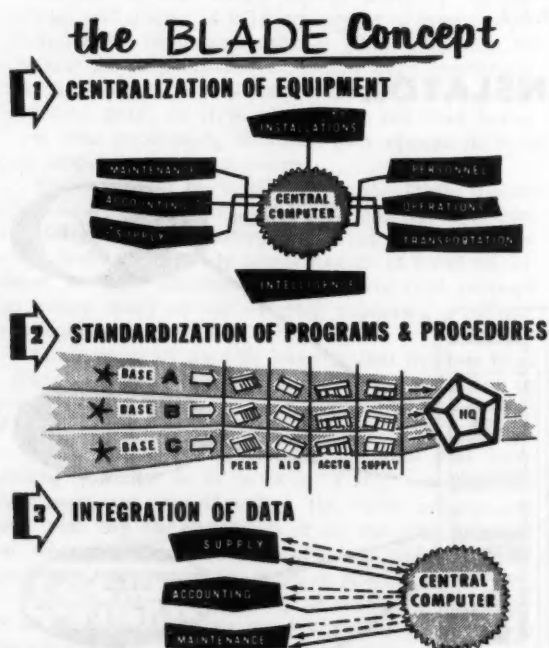
Now I should like to spend a few minutes on the successor to the Base Electrical Accounting Machine program.

As most of you know, the BEAM program has run its course as a special project and, for the most part, has become a relatively routine operation. Even before achieving this status, however, it had become obvious that in many instances there was as great a necessity to move from PCAM to EDP at base level as at higher echelons of command. As a consequence, we are getting a new base level project underway. This program will be known as Project BLADE, Base Level Automation of Data through Electronics.

We have done considerable spade work in this area both at headquarters and in a number of the commands with the result that we have a fairly firm answer to the first question which concerns our concept of EDP at base level.

This concept revolves around three basic principles:

CHART 3



Centralization of Equipment, Standardization of Programs and Procedures and Integration of Data. All three of these aims are faced with formidable obstacles and will require considerable effort before becoming capable of realization. Despite these ob-

stacles, we are convinced, most firmly convinced, that the most effective and the most economical base level EDP program must include these cornerstones.

Within the framework of these three principles, we have developed a systems criteria which espouses five major points.

Responsiveness to the needs of management is one of the most significant of these criteria, since it is imperative that the degree of responsiveness be commensurate with the operating needs of agencies being supported.

Economy is secondary in importance only to the criteria of responsiveness. It is essential that the base EDP system provide equal or better service at less cost than would be possible under a decentralized system.

Flexibility must be inherent in our data processing system, since data needs at all echelons, including the base, are changing continually. As a result, flexibility must be provided so as to permit further development or modification of the system as operating conditions change.

Our fourth criteria is reliability. The Base EDP system must ensure each agency that accurate data needed for mission accomplishment will be available when it is needed.

Finally, we believe that the criterion of security is essential to our base level system. Files, records and communications facilities must be protected from compromise to a degree consistent with the classification of the data that is to be processed.

In respect to equipment for BLADE, we envision a central computer, supporting peripheral gear, remote input/output devices, document creation devices within the functional agencies, and, in certain areas (where the need justifies it) satellite EDP facilities.

From this brief outline of our concept, we turn to the second question within the BLADE area. What are we actually doing insofar as base level EDP is concerned?

Three distinct projects are currently underway - projects which are aimed at shaking down our present concept. At Vandenberg AFB, SAC is using contractual assistance in developing a centralized integrated management system which is being designed to support our missile installations. At Bolling AFB, which includes the Bolling/Andrews complex, of course, the operation of a command/base system is undergoing test. At Charleston AFB, we are establishing what might be referred to as a conventional base system. The first two of these base projects are well along. Hardware is on site, and actual operations are underway. In the instance of Charleston, we are still in the planning stages. Installation of hardware was planned for early 1960. While it is too early to hazard more than a cautious opinion, we have no reason to believe that our efforts in the base EDP area will prove other than successful.

Now, let us consider some problems or evils within the area of EDP applications. The most obvious question which comes to mind, of course, is: What are these existing evils? While there are a considerable number, I shall deal only with the most prevalent.

First of all, we should understand that evils exist at both ends of the computer operation. On one side is the requirement for detail.

We have found, no longer to our amazement, that in many instances, the more capacity we have for processing data, the more data is required. When an EDP system is installed, or expanded, and it consolidates or eliminates functions and processes, the tendency appears to be to seek even more information. Some times this takes the form of greater detail. At other times it takes the shape of increased frequency. The results of this trend are obvious - too many reports, too frequent reports, too much detail.

The evil of increased data affects us at the other end of the computer also, in that it compounds an already existing problem - the accuracy of the input data and the timeliness of the products. Little need be said about this, since the old punch card axiom of garbage in - garbage out applies to EDP as well. It is entirely within the realm of possibility that unless the proper precautions are taken, we may jeopardize a whole system by compromising the accuracy of the data. Indeed, the possibility exists that we can lose more than we gain by installing EDP.

Still another evil which continues to plague us is our reluctance to alter basic systems when we switch to EDP.

It is simply not appropriate to have a stereotyped approach in the matter of how something should be done. Because it has been done a certain way in the past does not mean that it must be done in the same way on EDP. Conversely, of course, because it has been done for many years in a particular way does not make it bad per se. It may be suspect and subject to investigation, but it would not be discarded simply because it was done under an older system.

These then are some of the evils inherent in EDP today. And so we come to the final question. What can we do to remedy these conditions?

In essence, the role of the Comptroller, more specifically Statistical Services, must be that of policeman. This duty does not connote obstruction but rather guidance in directing the EDP effort toward the most productive ends. We can do this by assuming an aggressive role in finding out what data is really needed and what the management problems are. In addition, education and guidance to management personnel are important. We must give the managers a fair chance to know what they can get from EDP operations and, in turn, what they must provide to obtain these results.

Still further, we must cooperate with the various functional areas in watching the amount and frequency of data being generated, ensure that all the data submitted or produced is necessary and that such data

is useful both by nature and by accuracy. In short, while we must be a policeman, we must also act as an advisor to the remainder of the staff.

Let me conclude with a few words on what we are doing now to correct the evils engendered by non-standardized EDP procedures. To the best of my knowledge, it was not until recently that our EDP installations started to exchange a limited amount of information via magnetic tape among themselves and with our industrial sources of supply. This was not due to an unwillingness to do so, but simply to the fact that compatibility of information on the tapes did not exist. It still does not exist to any great degree. You may note that this is not an attempt on my part to either excuse or to fix blame for the recent excitement we had at the Pentagon. To solve this problem of incompatibility, we have initiated the following actions.

First, we have begun the task of standardizing input and output to our basic reporting systems in the areas of personnel, materiel, operations and accounting.

Second, we are in the process of standardizing the codes used in these systems.

Third, we are assisting the functional areas in designing completely new standardized data systems. An example of these efforts is the work now being carried on with Materiel in the Base Supply area and with Personnel on Project Automate.

Fourth, we are working with the joint AIA-Military Logistics Study Group which has been formed to find ways and means for government and industry to exchange data. Planning has given way to action here, since the military-industry working element known as the MILDDU Group, has developed a data flow system for the establishment of basic records and changes thereto by industry and the military on a standardized, uniform basis.

Fifth, AMC has established controls in respect to the developmental efforts of their AMA's and depots by assigning pilot installations to develop standardized EDP packages.

We intend to push ahead with this work and to effect as much standardization as proves to be practical within the restrictions imposed by diversification of EDP equipment and by command and local requirements.

I would be the first to admit that these are not all the questions which face us, nor necessarily the most important. The thought occurs, however, that if we can answer, or find solutions to these questions and the lesser queries embodied in them, we will have made a substantial contribution to improving management within the Air Force. The rewards for this are many.

MILITARY COMPTROLLERS AND BUREAU OF THE BUDGET RE: THE FINANCIAL MANAGEMENT PLAN

Maurice H. Stans, Former Director of the Bureau of The Budget

What You as Military Comptrollers Do

As set forth in the 1949 Amendments to the National Security Act, military comptrollers are vested with these functions:

- a. Supervising and directing the formulation and execution of the budget.
- b. Establishing and maintaining systems of accounting and progress-statistical reporting.
- c. Conducting internal audit and management studies.

What Your Organization—The Society of Military Comptrollers Does

It serves as a forum for the cross-fertilization of ideas. The better managers and the better management staff people are always eagerly looking for examples of good practice, copying them, and improving on them for the improvement of their own operations.

It is an instrument for the promotion of better financial practices.

It is an organization which I hope will continue to be active and vigorous.

What We In The Bureau Of The Budget Do

The Bureau of the Budget is now unknown to you—by reputation, at least. On the other hand it is well known to only a few of you. And since it has some interest in the improvement of management across-the-board in the federal government, including defense, it may be permissible for me to pause very briefly and give you a thumbnail sketch of Budget Bureau activity.

The main purpose of the Bureau of the Budget, in the Executive Office of the President, is to assist the President in the tremendous task of managing the affairs of the biggest business in the world—the Federal Government of the U.S.

It works closely and continuously with the President—seeks to correlate requirements, relate them to available resources, and reflect the result in meaningful over-all financial plans for the government.

This is the main function of the Bureau. It is the one most people think of when they think of the Bureau of the Budget. But it is not the sole function of the bureau. Actually, it consumes about two-thirds of staff resources.

The other third is not so well known, though it is of no less importance.

The other third involves such things as continually improving the budgetary machinery of the federal government, reviewing, correlating and processing legislative matters, and overseeing and setting

standards for the decentralized statistics-gathering agencies of the federal government.

But it also includes two other significant and important activities that are germane to my purpose in being with you today. It includes two organizational sections—the Office of Financial Management and the Office of Management and Organization—which are dedicated to the purpose of improving accounting and management and organization throughout all agencies of the federal government.

These latter activities have existed as functions in the bureau for many years, even though most people tend to think of the Budget Examining and Preparation Activity as being the only activity of the Bureau of the Budget.

The activities of the Bureau of the Budget in promoting continuous improvement in accounting and management and organization—in cooperation with agency people—over the years have been effective in producing demonstrable and continuing, and in some cases very substantial, improvements in agency operations. We in the bureau wish to continue to promote our activities in the field of management improvement.

So you see we in the Bureau of the Budget have—as part of our assigned job—a responsibility which is the same as yours as military comptrollers and as members of the society. Our objectives are the same, and they complement and supplement each other.

We share a mutual responsibility for helping to improve the financial management of the government in general and the Department of Defense in particular.

Our Program for Working Together—The Financial Management Improvement Program

An organized financial management improvement program has been underway for sever years.

OSD is taking the leadership in collaboration with the 3 services.

BOB is participating—I consider this program so important that I have asked an Assistant Director to give as much time to it as possible. Almost half of our Office of Financial Management is assigned full time to working out the program in Defense.

The program consists of:

(1) Fact-finding study of each of the five major functional areas (Operation and Maintenance, Research and Development, Procurement and Production, Military Construction, and Military Personnel).

(2) Preparation of a directive. Setting forth policies or principles for each functional area.

(3) Implementation of the directives by each service. As of now:

(a) Services are in the process of implementing the operation and maintenance directive. (7040.1)

(b) A draft of the military construction directive is in the hands of the services for review and comment.

(c) Studies in the other three areas are nearing completion. I understand that the military personnel directive will soon be completed.

Some Things I Think Are Important As The Program Moves Ahead

More people need to know what the program is all about.

Army prepared some very good material for the BOB training program last summer. I encourage its broader use throughout Army and across service lines as well.

I understand Air Force has some films. I also hope the other services will develop and use more good training materials for the financial management program.

I think Comptrollers ought to pay more attention to educating top management on how the financial improvement program will help in improving operations of the Defense Department. Support of top management is imperative if the program is to be successful. But this is not enough—all echelons of management must be shown how the program is going to be useful to them. Otherwise the program will be looked upon as a mere exercise in accounting for the benefit of the accountants alone.

Getting Financial Management in Perspective

And let's remind ourselves constantly that the uniform application of certain budget and accounting routines and techniques, which in some cases serve as indispensable tools of enlightened management, may not, in other cases, serve the same and as useful purposes. To link a program inseparably to certain routines and techniques is to sign its death warrant.

Financial management today seeks a larger role than mere standardization of techniques. It is directed toward the development and use of sound plans for operations—including their financial conse-

quences--intimately keyed to the needs of organization units, agencies, departments, the Executive Branch, and the Congress.

Cost Consciousness—A Major Objective

The end product of a sound financial management program is the effective utilization of available resources to carry out the programs of the Government---with the greatest possible economy.

As we all know, much emphasis in the past was directed, in government agencies, toward spending all the money that had been appropriated. There were times—not so long ago—when it was a sin to be caught at the end of the year with any unobligated balances of appropriations. Grave diseconomies sometimes resulted from these practices which, I think we must confess, were encouraged by the nature of the budget and accounting practices followed in many activities of the federal government in years past. In looking to the future, it is important that we substitute for that approach an emphasis upon conducting operations within established cost targets—while at the same time observing fund limitations—so that we can produce a maximum quality product at a minimum cost.

In considering the need for this reorientation, we have only to remember that in the years ahead there will be growing and, indeed, almost insatiable demands for new government activities. That the federal government must find ways to satisfy some of them is undeniable. And that it must do so with economy and efficiency is, I think you will agree, most desirable.

Results

I am sure that the results of your efforts will contribute immensely to the better management of the Department of Defense to the end of more "defense" for each tax dollar. We in the Bureau of the Budget are organized for and will continue to work with you on a continuing program for improving financial management in the Department of Defense.

AUTOMATION MAY END 4 MILLION OFFICE AND CLERICAL JOBS IN THE NEXT 5 YEARS, President Kennedy has been advised in a preliminary report on the impact of automation by Rep. Elmer J. Holland (D., Penna.), of the House Committee on Education and Labor.

The highlights of the report as revealed by Holland are:

- An estimated 160,000 unemployed auto workers in Detroit "will never return to automobile factories due to automation."
- Employment in the brewing, liquor and soft drink industry dropped 25 per cent in the last 10 years because of mechanization.
- In New York City alone, automatic elevators replaced 40,000 operators in the last 15 years.
- Some 50,000 jobs have been eliminated by automation in radio and television manufacturing over the last 10 years.
- One million railroad jobs have been eliminated through mechanization and automation the last 20 years.
- About 33,000 telephone and 80,000 electrical machinery jobs have been displaced by automation since 1953.
- In the steel industry, mechanization has enabled 12 men to produce a ton of steel compared with the 21 men required 20 years ago.

Holland, a member of the Steelworkers Union and a Representative of a Pittsburgh Congressional district, admitted his interest in automation stemmed from the effect of automation on employment in the steel industry. A more complete report is expected to be published at a later date, Holland said.

STRENGTHENING EFFORTS TO OBTAIN MANAGEMENT IMPROVEMENTS AND BETTER UTILIZE MANAGEMENT ENGINEERING SERVICES

Major General Robert W. Ward
Director of Management Analysis Office, Comptroller of the Army

One of the most promising ways to help close the gap between funds and missions is to search for less costly methods of accomplishing the Army's missions. We call this management improvement.

Management improvement must be recognized as an assigned mission, in fact a revenue producing mission. It would appear that commanders generally are giving management improvement a high priority. However, they must not be satisfied; they must continue and renew their efforts in finding improvements if the gap between funds and missions is to be diminished. To effectively discharge this responsibility the commander must, as a first step:

1. Create and nurture a favorable climate for the introduction of improvements.

2. Provide a competent staff to aid him in planning and searching for areas susceptible to improvement.

3. Insure that the head of each functional staff element and activity knows that he has a responsibility for the improvement of his own operations.

Let me emphasize that the comptroller, interested though he must be in the staff support of management improvement, must avoid giving the appearance that he is solely responsible for improvements. It may be trite, but it is not wrong, to say that he needs to have a passion for anonymity. The greater the number of staff officers and operating heads who exercise their responsibility to make improvements, the better will be the improvement effort.

This brings me to the current situation. The Army is making plans to place new emphasis upon management improvement. This emphasis covers three elements:

1. Strengthening efforts to obtain improvements in organization, procedures and methods;

2. Identifying specific areas in need of improvement; and

3. Making better use of management engineering (analysis) services.

The first element is concerned with finding a way to put more punch, energy and effort into the management improvement program. The key to strengthening this effort is in better planning of improvements in organization, procedures, and methods. Some agencies have, over the years, developed and carried out excellent annual management improvement plans, but there may be others that do not do a very systematic and thorough planning job. As a consequence, in the latter case, the efforts to improve are somewhat left to chance. If management improvement is recognized to be an assigned mission, then management improvement planning must be equally as good as other elements of mission planning. To be effective, such a plan must receive the same enthusiastic support of the commander which he normally exhibits in planning for and checking on training activities or other missions. Additionally the management improvement plan must provide for specific

accomplishments such as a reduction in the number of rations per meal, an increase of 10% in the production of the signal repair shop, or an increase in the utilization of sedans. Provision for periodic review of progress in carrying the plan out is needed.

The Army's regulation on Management Improvement, AR 1-60, calls for annual plans. The Office, Director of Management Analysis, OCA, has each year studied the plans which the principal commands send in with their management improvement reports, but it is now planned for the review to be made on a much more systematic basis, using some type of a standard for the evaluation. If each major and intermediate command does likewise, it is believed that closer attention will be given to the improvement or organization, procedures and methods. For example, the plans for Fort Dix should be evaluated by First Army; First Army's plans should be evaluated by CONARC; and CONARC's plans should be reviewed by Headquarters, Department of the Army.

Some readers may point out that such an evaluation of plans is already being made in many cases during the normal process of preparing the next year's operating program, since management improvements are incorporated into the operating program. This is good. Others may not place management improvements in the operating program but prepare a separate plan. This is also good. There is no prescribed pattern. Both ways are used. The point is, each subordinate commander is likely to put more emphasis on improvement if he knows that his superior commander is going to take a good long look at his plans, and later review his progress. At the Headquarters, Department of the Army, the Chief of Staff is to be briefed on the plans of the four overseas commands, CONARC, and DCSLOG.

The second element of the new emphasis upon management improvement is the identification of specific areas in need of improvement. Opportunities for improvement are all around us. A few are evident and stand out like sore thumbs, particularly those for which money would help. But many of the opportunities are not evident and are unseen. For example, the commander of the Rock Island Arsenal was not aware of the opportunity to reduce the cost of janitorial services until this activity was carefully measured. It was found that about one-third of the time of the janitors was unproductive, due partly to errors of management and partly to the lack of pace or effort on the part of the workers. The arsenal now gets along with about 49 fewer janitors because it discovered the opportunity for improvement and then took action. This is an example of closing the gap between funds and missions.

There are many ways available to identify opportunities for improvement. Only a few will be mentioned in this article. The normal review and analysis of progress against programs frequently reveals problems and difficulties that need attention.

Some of them may be organizational in nature or they may involve procedures, while others may be due to faulty methods of getting work done. It is customary for some commands to schedule such opportunities for improvement in their management improvement plans and assign them to an appropriate staff element or operating chief.

Other sources are IG inspections and the Army Audit Agency reports. The fact that the local commander and his staff are in an excellent position to know of places where improvements have a great potential should not be overlooked. These items are appropriate for the annual management improvement plan.

The practice of measuring performance, i.e., measuring the quantity and quality of work done, is too seldom used, yet it is perhaps the one most important device for identifying potential improvements. It was through measurement and standards that the Rock Island Arsenal obtained a clue to the janitorial problem. The development of practices for measuring personnel performance, and measuring the utilization of equipment, facilities, and materials needs to be emphasized. A number of commands have made notable progress in this direction, others have hardly made a start.

In this connection, the Office, Chief of Engineers is developing a project to find ways to improve the practice of planning, scheduling, measuring, and managing the maintenance of facilities, in the hope of reducing some of the great backlog. The Army spends about \$200 million annually on facility maintenance. A conservative estimate is that a 10% improvement, or \$20 million a year, can be obtained by better management methods. Here is a topic that every commander should explore in his own command.

The Under Secretary of the Army has asked the Comptroller of the Army to look into the way the Army learns about and disseminates information on industrial practices and equipment. This project is presently underway. As part of the project we are asking some of the field comptrollers for information about this practice.

Earlier it was stated that commanders could profitably use a built-in staff capacity to assist them and their operating chiefs in developing improvements. There are about 400 such staffs in the Army today, some very capable, others with limited capabilities. They are called by various names. I refer to them as management analysis staffs. If such staffs are to be a real help to the commander, they must be capable of identifying opportunities for improvement and for developing, or finding ways to develop, more efficient and economical use of resources. These management analysis staffs must be composed of capable men, not boys. This is why the second element is included in the current Army emphasis on management improvement.

The Office, Comptroller of the Army can help, but the real focal point of the problem of getting a capable management analysis staff is in the field. The problem is one for every commander. I have, however, a few suggestions which may be helpful in improving the qualifications of civilian and military management analysts.

1. Various training means described in CPR CP11, Army Civilian Career Program for Comptroller Functional Area, can be used to help improve the qualifications of the analysts already employed. I am a thorough believer in "on-the-job training." The Ordnance Management Engineering Training Agency (OMETA) is now developing on-the-job courses for work planning and control and for procedure analysis. These will be announced later. But there are many other materials already available for immediate use.

2. A conference of management analysts can be conducted in each command. Effective improvement programs at one or more installations could be singled out for discussion so that there would be an exchange of experience between analysts. All could learn at working sessions in such a conference about the ways for identifying opportunities for improvement; and possibly single out specific areas on which a concerted effort could be made to bring about improvements.

3. The Army's new facilities for civilian personnel inventory and referral can be used to locate experienced persons to fill vacancies. This system is described in CPR CP11, Army Civilian Career Program for Comptroller Functional Area. It widens the geographic area available in searching for capable people. DA Pamphlet 35-11, Establishing and Staffing Comptroller-Function Positions, can be used as a means of improving grade structure and qualification standards for management analysts.

4. The Work Simplification Training Program is one means for stimulating management improvement consciousness. At the same time, it also helps to improve the capability of management analysts. This program has paid off handsomely during the last seven years. For every dollar put into it an average of \$16 in benefits has resulted. Over one hundred thousand supervisors have been taught to use work simplification tools. Despite this valuable experience, two principal deficiencies are found. First, instructors have sometimes been used who lack the basic understanding of work simplification. Some commanders have corrected this first deficiency by assigning senior management analysts rather than juniors to be the instructors. Second, there is frequently a lack of advanced training for supervisors who have already taken the basic course. Unfortunately, supervisors in some commands are being given the same basic course over again. It would be better to develop advanced courses, and there are training materials already available for this. Management analysts need to be resourceful in developing advanced training in work simplification, and in this way they obtain another by-product by helping themselves become more skilled analysts.

The search for opportunities to make management improvements is just as fascinating as trying to dope out "whodunit" in a detective story and there are just as many clues that need to be examined, but the process of finding potential improvements is quite different from those used in discovering the real murderer. There are many ways to launch this new emphasis. Each commander needs to be resourceful in devising ways to energize and instill

enthusiasm into the operating and staff elements to hunt for places where costs can be reduced. One commander, Major General Westmoreland, recent Commanding General of Fort Campbell, Kentucky, and the 101st Airborne Division developed a very comprehensive plan called "Operation Overdrive", an effort to do more, and better, with less. This program was designed to enhance efficiency and economy of all operations, not only in the technical service or production field, but also in the combat arms field. All levels of command, supervision, staff and workers (civilian and military) are involved. The basic elements of this program are COMMAND EMPHASIS, specific sub-programs, specified standards or produc-

tion goals, related reporting on a weekly basis of accomplishments in reference to standards or goals, and, last but not least, an appropriate system of rewards and penalties.

Another commander, General Dasher, recent Commander of the Caribbean Command, has shown resourcefulness in developing another successful plan. One big project in his plan for FY 1960 was called "Operational Analysis", which put new life into the improvement activity by getting all of the staff elements to participate. He also removed the too prevalent stigma that this was just another comptroller project.



Phillips to Direct Financial Symposium

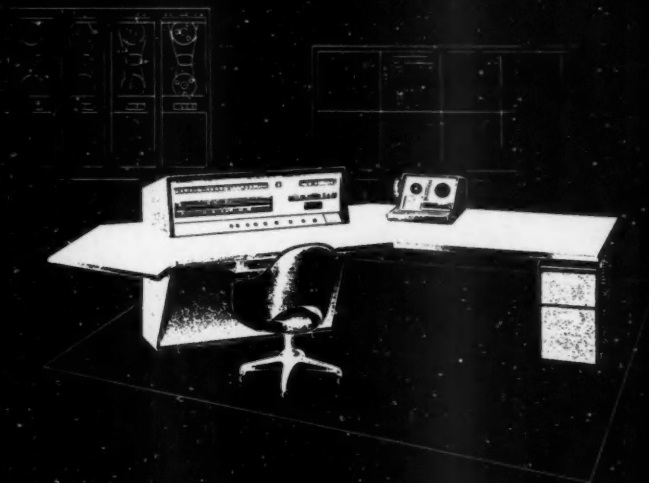
Charles A. Phillips, director, data systems research staff, Department of Defense, will serve as general chairman of the tenth annual national symposium of the Federal Government Accountants Association, to be held May 18, 19 and 20 at the Hotel Shoreham, Washington, D. C.

Mr. Phillips' appointment was announced by the national president of FGAA, Raymond Einhorn of Washington, Director of Audit for the National Aeronautics and Space Administration.

"Changing Dimensions of Financial Management" will be the central theme of the three-day conference. Top financial administrators of the Government will discuss new concepts such as managerial auditing, advanced methodologies as in statistical sampling, and improved equipments which are coming into use for greater efficiencies in financial management operations.

Day-time technical sessions and exhibits will be open to the general public. The symposium will conclude with the organization's annual banquet on Saturday night, May 20. Among the 1200 persons expected to attend will be representatives from the 38 chapters of the Federal Government Accountants Association in this country and overseas.

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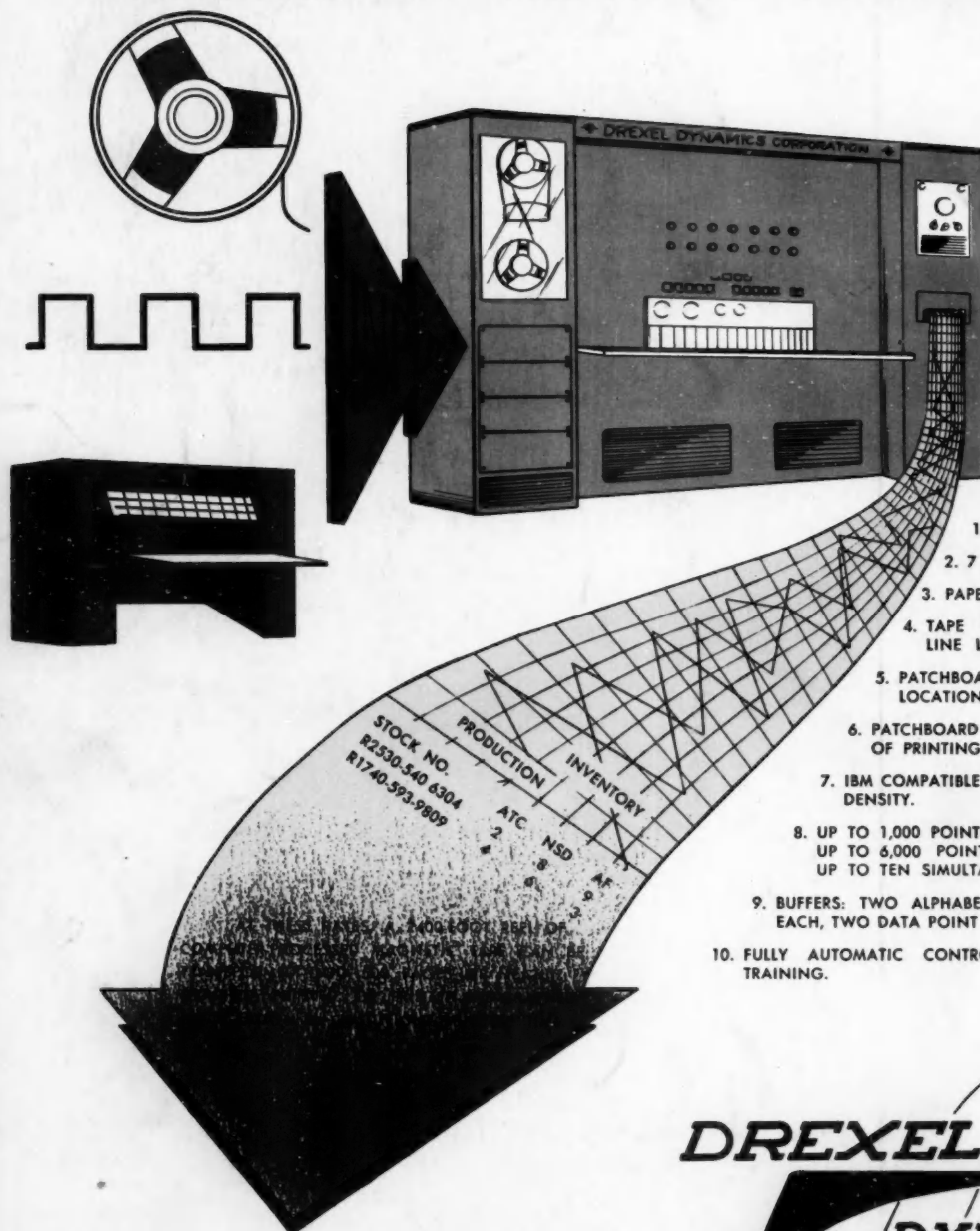
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